FINANCIAL TIMES

Pensions
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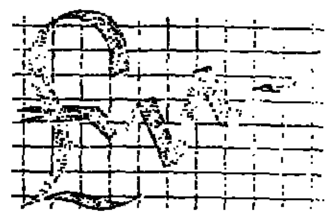

Sterling
Good news bad news
Samuel Brittan, Page 12

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John Reed's vision
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Tough road to reform
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World Business Newspaper http://www.FT.com THURSDAY OCTOBER 24 1996

Fresh evidence links cow disease to human deaths

British scientists published the strongest evidence to date that a new strain of the fatal human brain disease, Creutzfeldt Jakob Disease, is caused by BSE or "mad cow disease". The research, another blow to the embattled UK beef industry, shows that a new strain of CJD found in 12 young people in Britain over the past two years is distinct from other types. Page 14

SAP shares slump: Shares in German business software group SAP, one of the recent top performers on the Frankfurt stock exchange, fell by almost a quarter after a warning over future sales and profit growth. Page 15; Lex, Page 14; World stocks, Page 36

Netherlands names telecoms suppliers: The Dutch government selected Telfort, a joint venture between BT of the UK and the Dutch national railways, and EnerTel, which groups regional energy companies and providers of cable television, as the two groups to provide telecommunications services in the first direct competition to the privatised monopoly KPN. Page 5

PolyGram, the world's largest music company, issued a profits warning following poor music sales and said it would shed about 400 jobs out of a worldwide total of around 12,000. Page 15; Lex, Page 14

Warner's big plans for little 'Creatures':

Computer games publisher Warner Interactive is launching a package in which players learn about "family values" by teaching them to alien lifeforms. Hatched from eggs, the creatures (left) live, learn and breed on the home computer. The company says its *Creatures* game, featuring individuals with their own likes and dislikes and varying intelligence, breaks the mould of violent computer games. Page 9

IG Metall, the German engineering workers' union, plans to hold rallies throughout the country in protest against cuts in sick benefits as pay talks between employers and unions broke down. Page 14

Russian tax scheme attacked: Russian companies threatened with bankruptcy for not paying taxes attacked the government for its tough new approach. Page 3

Banco Mexicano in Spanish deal: Spain's Banco Santander is on the verge of a deal to take a stake of about 75 per cent in Mexico's fifth-largest bank, Banco Mexicano. Page 20

UK court defeat for Berlusconi: Former Italian prime minister Silvio Berlusconi, facing trial in Italy on bribery charges, lost a court battle to stop UK authorities passing documents to Italian prosecutors. Page 2

Chirac calls for peace talks role: French president Jacques Chirac, in the first address to the Palestinian legislature by a foreign head of state, renewed his call for a greater European Union role in Middle East peace talks. Page 7

Russia vetoes Black Sea fleet break-up: The Russian parliament re-opened a rift with Ukraine by adopting a resolution to halt the division of the Black Sea fleet and declare the Ukrainian city of Sevastopol an exclusive Russian base. Page 2

Urban Chinese 'getting poorer': A Chinese government survey says many of the country's city residents are getting poorer, in spite of the country's strong economic growth. Page 6

African ethnic war fears: Continued fighting in east Zaire increased the possibility of an ethnic war in Africa's Great Lakes region, pitting Hutus from Rwanda, Burundi and Zaire against Tutsis from those countries. Page 7

Borg faces bankruptcy action: Creditors of former Swedish tennis player Bjorn Borg, owed about SKr10m ($1.5m) from one of his companies that collapsed in 1989, said they were seeking to have the five-times Wimbledon champion declared bankrupt.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	6,004.04	(-57.76)
NASDAQ Composite	1,218.06	(-1.92)
Europe and Far East		
CAC40	2,148.86	(-26.75)
DAX	2,699.53	(-19.45)
FTSE 100	4,028.4	(-28.8)
Nikkei	21,082.15	(-41.53)

US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.114%
Long Bond	98⅞
Yield	6.858%

OTHER RATES

UK: 3-mo Interbank	6%	(5⅞%)
UK: 10 yr Gilt	99⅝	(99⅞)
France: 10 yr OAT	103.68	(104.24)
Germany: 10 yr Bund	101.65	(102.13)
Japan: 10 yr JGB	102.2363	(102.1994)

NORTH SEA OIL (Argus)

Brent Dated	$24.96½	(25.2)

GOLD

New York: Comex		
(Dec)	$385.8	(386.1)
London:		
close	$383.6	(same)

DOLLAR

New York: lunchtime		
£	1.59875	
DM	1.5203	
FFr	5.136	
SFr	1.2525	
Y	112.83	
London:		
£	1.5964	(1.5975)
DM	1.5234	(1.535)
FFr	5.1468	(5.1878)
SFr	1.2546	(1.2651)
Y	113.02	(112.89)
Tokyo close:	Y 112.4	

STERLING

DM	2.4319	(2.4521)

Albania LEK 275	Gibraltar £0.75	Lithuania Lts 18.00	Qatar QR13.00
Austria Sch27	Greece Dr400	Lux LFr65	S.Arabia SR13
Bahrain Din1.300	Hong Kong HK$20	Malta Lm0.70	Singapore S$4.30
Belgium BFr75	Hungary Ft270	Morocco Dh20	Slovak Rp Sk75
Cyprus C£1.20	Iceland IKr250	Neth Fl 4.75	S.Africa R12.00
Czech Rp Kc70	India Rs75	Nigeria Naira125	Spain Pta250
Denmark DKr20	Israel Shk9.00	Norway NKr22.00	Sweden SKr20
Egypt E£5.00	Italy L3200	Oman OR1.75	Switz SFr3.70
Estonia EKr 28	Japan Y300	Pakistan Rs50	Syria S£80.00
Finland FM18.00	Jordan JD1.75	Poland Zl 6.00	Tunisia Din2.000
France FFr12.00	Kuwait Fils.750	Portugal Esc325	Turkey L120,000
Germany DM4.00	Lebanon LL3500		UAE Dh13.00

Markets fall after Bundesbank economist rules out cut in repo

German rates at 'historic low'

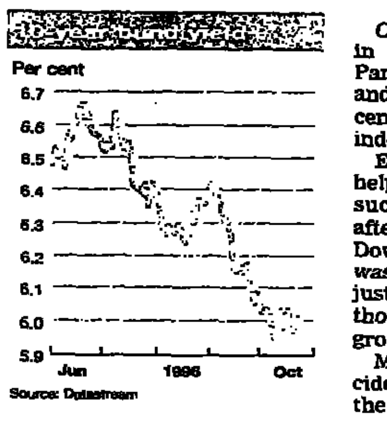
By Peter Norman in Bonn and our Markets Staff

A warning from the Bundesbank's chief economist that German interest rates would fall no further triggered sudden weakness in Frankfurt financial markets yesterday.

Mr Otmar Issing, a member of the German central bank's policy making council, said in a television interview that Bundesbank rates were at a historic low "and that more was neither to be expected nor necessary".

He said monetary policy had done everything necessary to provide sufficient financing for the economy while money supply growth was, if anything, too strong.

Frankfurt bank economists viewed his remarks as a statement of the obvious, after growing signs of economic recovery since the Bundesbank's decision to cut its securities repurchase (repo) rate to 3 per cent from 3.3 per cent late in August.



Source: Datastream

But shares and bonds fell in late dealings, with the DAX share index falling 42.85, or 1.6 per cent, to 2,678.89 in post-bourse trading.

Other European markets fell in sympathy, with shares in Paris falling by 1.2 per cent and in Switzerland by 0.9 per cent. In London, the FT-SE 100 index fell 28.8 to 4,028.4.

European bourses were not helped by Wall Street which succumbed to profit-taking after its recent record run. The Dow Jones Industrial Average was more than 60 points down just after midday in New York, though it had regained some ground in late trading.

Mr Issing's remarks coincided with other bad news for the markets. The DAX, which was at its high for the year last Friday, had already dropped by 19.45 points to 2,699.53 in regular trading yesterday, largely because the software company SAP, which is one of Frankfurt's glamour stocks, had tumbled DM65.40 to DM212 after a sales and profits warning.

The Bank of Italy yesterday surprised financial markets and the political establishment by cutting the discount rate to 7.5 per cent from 8.25 per cent. The move, a reaction to inflation data, boosts government plans to put the country's finances in order to take part in European monetary union. Report, Page 2; Lex, Page 14; Bonds, Page 24; London stocks, Page 32; World stocks, Page 36

Mr Issing's comments also helped fuel a rise in the D-Mark against the dollar, which is potentially damaging for Germany's export industry.

German government bond prices fell sharply after Mr Issing's comments. Bond markets throughout Europe reacted negatively to his remarks, reversing most of the gains made the previous day. In the German cash market, the yield on the benchmark April 2006 bund rose six basis points, to 6.1 per cent. The price fell to 101.65, down 48 basis points.

Yesterday's market jitters came as the Ifo economic research institute of Munich reported an upturn in its closely watched business climate index, which reached its highest level for a year in September. The index of business expectations in western Germany was especially strong last month.

At the same time, the number of insolvencies and bankruptcies in Germany is likely to break last year's record level in 1996. The federal statistics office in Wiesbaden announced yesterday that insolvencies were up 11.4 per cent in the first seven months of this year with company failures 17.6 per cent higher than in the same period of 1995.

Murdoch seeks to raise $1.5bn on markets

By Conner Middelmann and Raymond Snoddy in London

Mr Rupert Murdoch's News Corporation is going to the financial markets to raise about $1.5bn from preference shares that could be converted into British Sky Broadcasting shares.

The shares of the UK satellite venture, which have been riding high until recent days, are seen as a carrot for an opportunistic fundraising exercise.

The financing, through News America Holdings, could be designed to reduce overall debt but more probably to help finance ambitious ventures into digital satellite broadcasting from Asia to South America and in the US.

The actual size of the deal will depend on market demand with a minimum of $1bn expected. The sum raised could be higher than $1.5bn.

The option of converting to BSkyB shares is not believed to be absolute. Under the terms of the issue, News Corp will have the right to offer a cash repayment instead. Analysts believe Mr Murdoch wants to hold on to his BSkyB stake and is betting that the broadcaster's shares may be at a high point for the time being. If so, investors will not be tempted to convert. Moreover, the cost of the cash alternative repayment would not be onerous.

The issue is likely to carry a coupon of 4¾-5 per cent, a conversion premium of 20-22 per cent on the current market price, and have a 30-year maturity. Dealers said the issuer would not be able to force conversion during the first five years.

The securities were being marketed globally, including to US institutional investors under SEC Rule 144A, dealers said. The transaction is expected to be priced next week. Merrill Lynch is believed to be arranging the offering.

Mr Murdoch has used con-

Continued on Page 14
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AT&T picks printing chief as heir apparent

By Richard Waters in New York

AT&T, the US's largest telecommunications company, yesterday turned to a 49-year-old executive with no experience of the industry as the man to lead it through the upheaval in US and international telephone markets.

This followed the revelation by Bob Allen, chairman and chief executive, that he would leave AT&T nearly two years before the company's normal retirement age. "No-one should run a company for more than 10 years," said Mr Allen, who will have headed the company for a decade when he steps down in 18 months.

AT&T said Mr John Walter, formerly chairman of RR Donnelley, the world's largest commercial printing company, would become its number two executive immediately with the titles of president and chief operating officer.

He replaces Mr Alex Mandl, Mr Allen's heir apparent until he resigned unexpectedly in August to run a start-up telecommunications company.

Mr Walter, who has spent his working life at Donnelley, will take over from Mr Allen as chief executive next January and as chairman in May.

The appointment of the little-known executive surprised Wall Street, where speculation in recent weeks had linked well-known names in the telecommunications and computer industries with what is one of the most visible jobs in American business.

He joins as AT&T's profits are under pressure because of increased competition in the long distance business.

Mr Walter yesterday pointed to Donnelley's involvement in printing telephone directories as his sole experience in the telecommunications industry until now. "I am not steeped in the knowledge of this industry," he said, but added: "I have good overall business management experience . . . This is a business like any other."

Mr Allen called Mr Walter "a quick learner", and paid tribute to his "capacity to transform and to lead." Under Mr Walter, Donnelley has been turned from an old-fashioned printing company into a "tough global competitor."

In an early indication of what may lie ahead for AT&T,

Continued on Page 14
Observer, Page 13

Brundtland steps down in Norway

Thorbjörn Jagland speaks to reporters in Oslo yesterday after the announcement that he will succeed Gro Harlem Brundtland as prime minister of Norway. Mrs Brundtland has been the nation's dominant political figure for the past 15 years.
Report, Page 14 Reuter

Takeover battle breaks out in US rail industry

By Richard Tomkins in New York

A takeover battle started in the US rail industry yesterday when Norfolk Southern, the fourth largest railway company, launched a $9.1bn hostile bid for Conrail, the fifth biggest.

Norfolk Southern's bid came just eight days after Conrail announced that it had agreed to a friendly takeover by CSX, number three in the rail rankings, in a cash-and-share deal worth $8.1bn.

Norfolk Southern said it was bidding $100 a share in cash for Conrail's common and convertible preferred stock. CSX is offering $92.50 a share in cash for 40 per cent of Conrail's shares and 1.856 CSX shares for each of the remaining 60 per cent of the shares.

Conrail's stock, which began last week at $69¾, shot up another $12⅝, or 14 per cent, to $96⅝ in early trading. Norfolk Southern's shares edged down $1⅞ to $93¼ and CSX's were unchanged at $46¼.

Mr David Goode, Norfolk Southern's chairman and chief executive, argued yesterday that a merger between his company and Conrail would create a more balanced eastern US rail system that would increase, rather than diminish, competition.

"CSX and Conrail have substantial market overlap, and a combination of their two franchises would create a company with nearly 70 per cent of the traffic handled by major carriers in the eastern rail market," Mr Goode said. "It is simply unacceptable from the standpoint of an overall competitive network in the east."

In contrast, Mr Goode said, a merger between Norfolk Southern and Conrail would create a company with 60 per cent of the market and substantially less overlap.

The pattern of events mirrors that seen in the west in the last two years, when mergers between the four big western railway companies have resulted in the creation of two even larger groupings.

US railway companies, which only carry freight, have successfully argued that these mergers benefit customers because they bring better services and lower costs, so outweighing competition concerns.

Norfolk Southern said it expected the merger to grow from $145m in 1998 to more than $515m in 2000. These savings would result from elimination of common overheads, more efficient use of rolling stock and rationalisation of maintenance facilities.

In addition, Norfolk Southern said it expected the merger to generate extra revenues of $525m a year by 2000, partly through the diversion of freight from road to rail. The savings and extra revenues would add $175m to operating profits in 1998, growing to $660m in 2000.

CONTENTS

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UK High Court rules Serious Fraud Office acted legally

Berlusconi loses appeal on seizures

By John Mason in London and Robert Graham in Rome

Mr Silvio Berlusconi, the former Italian prime minister, who is facing trial in Italy on bribery charges, yesterday failed to stop the UK authorities passing documents about his financial affairs to Italian prosecutors.

The High Court in London ruled the British government and Serious Fraud Office had acted legally in seizing thousands of documents relating to Fininvest, the media company controlled by Mr Berlusconi.

The documents were seized in April during a raid on CMM, a London company which helped run Fininvest's business affairs. The raid was requested by Milan magistrates investigating allegations that L100bn ($65m) was wrongly removed from Fininvest and used for criminal purposes including illegal payments to politicians.

Mr Berlusconi will tomorrow make a final attempt to stop the documents being sent to Italy, when his lawyers will ask for the case to be referred to the House of Lords.

If he succeeds, Mr Berlusconi could delay the transfer of the documents until next year. This would create problems for the Italian authorities because time limits imposed by Italian law would limit the documents' use in court proceedings.

If his bid fails, the documents will be immediately sent to Italian prosecutors. Even if the case is referred to the House of Lords, it is still open to the High Court to allow the papers to be transferred to Italy tomorrow. One of the two judges, Lord Justice Simon Brown, said it would be "a pity" if legal proceedings in London prevented the Italian authorities making use of the documents.

The papers will be used in the trial of Mr Berlusconi and other executives in his business empire on charges of bribing members of the Guardia di Finanza (financial police) to ensure favourable inspections of company books. Milan magistrates regard the information as essential to complete the picture of Fininvest's off-balance sheet operations.

Even if the transfer of the documents is blocked, the magistrates have already acted on the information made available in London. Yesterday Mr Berlusconi's Italian lawyers hinted they would shift tactics, focusing on the legality of the way the London information had been used by Milan magistrates before formal transfer of the documents.

The High Court judges rejected claims by Mr Berlusconi that the raid was an illegal "fishing expedition" and that the alleged offences were of a political nature not covered by international treaties.

They said the Italian and UK authorities had acted properly in investigating "a wide-ranging, multi-faceted international fraud involving far-reaching allegations against a large number of individuals in connection with an even larger number of companies".

They also released the Italian letter of request detailing how the alleged fraud worked.

"The investigation into Fininvest has discovered a very large fraud whereby, for different reasons and by different methods, the persons under investigation all acting under the direction of Silvio Berlusconi, worked together to remove large sums of money secretly from Fininvest," the letter said.

It alleged a substantial number of overseas companies were created in Panama, the British Virgin Islands and the Channel Islands. These were initially administered from Switzerland and performed a number of different operations including:

● A Fininvest company agreeing with an overseas company to perform a service in return for a fee. No service was provided, but the money was transferred from Fininvest.

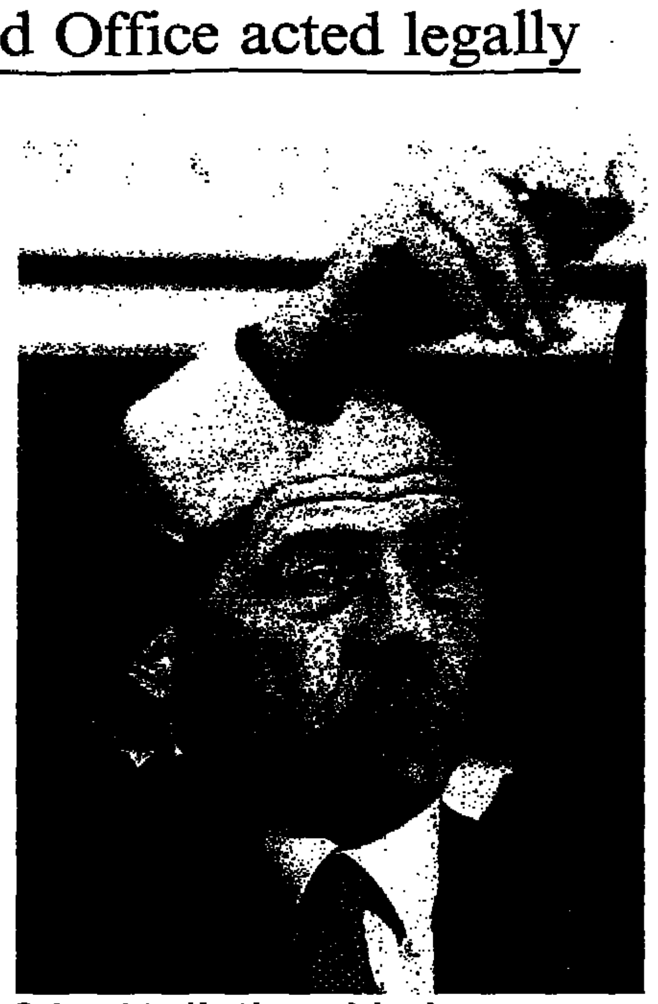
● A Fininvest company agreeing to buy share rights from an overseas company. "Again, this was illusory and no rights were actually acquired," said the letter.

● Overseas companies used Fininvest money to buy shares in the Fininvest group, apparently to inflate the share price. However, this operation was a "sham" because the shares remained in the ownership of the same nominee.

The ultimate destination of the money was still under investigation, the letter stated. However, in 1991, some L10bn was paid into the Lugano bank account of an overseas company.

It was later transferred to an account at the Trade Development Bank of Geneva operated on behalf of a nominee for Mr Bettino Craxi, the former Italian prime minister.

It was then tranferred to BIL, a Luxembourg bank, and credited to a company called Bellhart Holding. One of those who operated this account was a Palestine Liberation Organisation representative called Mr Al Kateeb.



Berlusconi: trouble at home and abroad Reuter

Albania deal in sight on Nazi gold

By James Blitz

Britain, France and the US look set to reach agreement with the Albanian government over the transfer of more than 1,000kg of gold bullion to Tirana, ending one of the last international disputes to arise out of the second world war.

After decades of wrangling between the three western powers and Albania over the ownership of the gold, the British Foreign Office said this week it was "extremely hopeful" an agreement would soon be reached for the bullion transfer.

For 50 years, Albania has claimed ownership of the gold, which is now worth $12.2m. It was recovered by the allies from Nazi Germany after the war and is kept by a body called the Tripartite Gold Commission in the Bank of England and the New York Federal Reserve.

Albania has always claimed it should recover the gold in compensation for reserves plundered by the Nazis. But its claim for gold taken first by Italy and then by Germany became bogged down in a long dispute with the UK after the "Corfu channel incident" in 1946, when two British destroyers struck Albanian-laid mines while exercising their rights to pass through the channel.

One destroyer was sunk with the loss of 44 lives. The other was holed and had to be scuttled. The British held Albania responsible and broke off diplomatic relations over the incident, only restoring them in 1991. During that time, talks on restitution of gold were effectively frozen.

The agreement being fleshed out would require the commission – run by the three allied powers – to hand over the gold to Tirana. In return, the Albanians would pay the British government compensation for the Corfu channel incident.

Agreement is keenly awaited by Jewish groups who argue the remaining sums held by the Tripartite Gold Commission should be handed over to survivors of the holocaust of European Jewry.

The Tripartite Gold Commission is expected to hand over the remaining bullion to 10 European countries whose reserves were plundered in the war. But last month, Mr Malcolm Rifkind, the UK foreign secretary, raised the possibility of handing over the gold to the World Jewish Restitution organisation, which handles claims by families of holocaust victims.

The British government has made clear that diplomatic negotiations over the final allocation of this gold can get under way only after a treaty has been signed with the Albanians.

After the war, the Tripartite Gold Commission negotiated the recovery of gold from Germany, Austria and Switzerland. Claims for restitution were received in 1947 from 10 countries: Belgium, the Netherlands, Luxembourg, Czechoslovakia, Poland, Austria, Yugoslavia, Italy, Albania and Greece.

Substantial payments were made to claimant governments in the late 1940s and 1950s but, as in the Albanian case, the commission's work became caught up in the cold war.

EUROPEAN NEWS DIGEST

Many charged in Czech fraud

Twenty five people were charged yesterday with fraud against 10 Czech banks after an investigation by a police unit inquiring into organised crime, the interior ministry said.

The ministry said former policemen, prison guards and soldiers as well as business people were charged with obtaining, "by fraudulent means, large unsecured loans from 10 Czech banks between 1992 and 1994".

The loans ranged from Kč5m ($183,150) to Kč450m, but the ministry did not name the banks involved. It was unclear whether those charged were connected with a number of bank failures this year, some caused by unsecured lending. At least five people were charged last month in connection with the collapse in August of Kreditni Banka, a private bank that lost up to Kč12bn. A parliamentary inquiry into that failure is under way.

In a report on the banking sector, the central bank admitted one consequence of a liberal bank licensing policy between 1990 and 1992 was the creation of some banks that concentrated on providing credits to their own shareholders. "Those banks, and their shareholders in particular, pursued only their own short-term targets; often in contradiction to valid acts and regulations. Many instances occurred when a narrow group of entrepreneurs were enriched to the detriment of depositors and, eventually, taxpayers," it said. *Vincent Boland, Prague*

Bonn backs market reforms

The Bonn cabinet yesterday endorsed plans by Mr Günter Rexrodt, the economics minister, to liberalise Germany's electricity and gas markets. However, the draft legislation is unlikely to become law in its present form.

The environmental Green and opposition Social Democrat parties have signalled that they will reject the reform when it comes to the Bundesrat, the second chamber of the German parliament in which SPD-led state governments have a majority.

The legislation, first put forward in draft form in April, aims to reduce prices sharply for business users, and eventually for household consumers, by scrapping energy supply legislation dating from 1935 to allow new competitors in the energy market and end local monopolies. *Peter Norman, Bonn*

Mitterrand doctor to pay up

A court yesterday ordered François Mitterrand's doctor to pay damages to the late French president's relatives, and upheld a ban on the book disclosing details of his fatal cancer. Dr Claude Gubler has already been sentenced to a four-month suspended jail term for breaching medical secrecy by revealing in a book that Mr Mitterrand misled the French people for over a decade about the illness which finally killed him.

The court yesterday ruled that Dr Gubler should pay FFr340,000 ($66,000) to Mr Mitterrand's relatives for invasion of privacy in his book Le Grand Secret (The Big Secret). The family had asked for FFr300,000. Published a week after Mr Mitterrand died in January, the book was banned within 24 hours after its first print run of 40,000 copies had sold out. *Reuter, Paris*

Program pirates on top

Every third computer program used in German companies is believed to be a pirated copy, costing software makers DM1.2bn ($810m) in lost revenue last year, the Business Software Alliance said yesterday. It said Europe-wide software piracy cost makers almost DM6.6bn last year – 13 per cent up on 1994.

But the pirate share of the market declined, mainly because of the overall market has grown. In 1995, 49 per cent of the software in circulation in western Europe was pirated, compared to 52 per cent in 1994. The figures were 83 per cent in 1995 and 85 per cent the previous year in eastern Europe, the alliance said. *AP, Munich*

Swiss farmers' violent protest

Bern, the Swiss capital, yesterday witnessed its worst violence for years when police used rubber bullets, water cannon and tear gas to disperse a rally of farmers protesting against falling living standards.

The rally began peacefully when more than 10,000 gathered in the main square. But demonstrators began hurling meat, apples and bottles at the police who replied with water cannon as organisers appealed for calm. Fighting broke out, and the police launched a large-scale attack using teargas and rubber bullets. Cars were set on fire, traffic signs toppled and windows smashed. Police said they had been provoked and forced to react when farmers tried to storm the parliament building. The Swiss Farmers Union described the police action as "a disgrace and completely irresponsible." *AP, Switzerland*

■ Belgium's main trade union, the General Labour Federation (FGTB), yesterday issued notice of a one-day general strike on Monday in support of substantially higher wages following a three-year freeze. *AFX, Brussels*

■ Slovenia's trade unions have called a two-hour general strike for today in protest against employers' plans to reduce social benefits. *Reuter, Ljubljana*

■ Poland's left-dominated parliament yesterday decided that former communist military strongman General Wojciech Jaruzelski should not be prosecuted for his 1981 declaration of martial law to crush the Solidarity union. *Reuter, Warsaw*

■ Retail sales in Sweden fell 1.3 per cent in August from a year earlier. For the eight months to August, they were down 0.3 per cent year-on-year. *AFX, Stockholm*

■ The European Bank for Reconstruction and Development yesterday announced its first loan to a Bulgarian-owned private sector company – $10m to Astera, a personal care products company, to fund an acquisition under the country's privatisation programme. *Our Foreign Staff*

Bank of Italy cuts discount rate to 7.5%

By Robert Graham in Rome

The Bank of Italy yesterday announced a cut in the discount rate to 7.5 per cent from 8.25 per cent, giving a boost to government plans to put the country's finances in order and take part in European Monetary Union (Emu).

The move followed preliminary data on this month's inflation which showed the rise in consumer prices falling to 3 per cent on an annualised basis.

Mr Antonio Fazio, governor of the Bank of Italy, has been under strong pressure to bring Italian rates more into line with its EU partners but he has obstinately resisted, insisting inflation must come down to 3 per cent.

Italy runs a strong primary budget surplus (the balance of spending and receipts less interest payments on debt), and any interest rate reduction has an important impact on the service of the country's huge debt - a one percentage point fall in interest rates means a saving of roughly L15,000bn ($9.7bn) over 18 months.

The decision took the markets and political establishment by surprise. It had been widely expected that the central bank would wait until the beginning of next month, when firm data on October inflation becomes available, or delay until the 1997 budget passes through the lower house of parliament where the government lacks a clear majority. The earliest for such approval would have been mid-November.

Economists said last night Mr Fazio might have decided to act now in the face of mounting evidence that the economy is stagnating. Growth is expected to be no more than 0.8 per cent this year.

The bank is also understood to have been obliged to buy substantial amounts of foreign currency in the past two months to prevent the lira appreciating further as foreign investors have cashed in on Italy's high interest rates, against a background of the government's pledge to meet the convergence criteria for taking part in the single currency.

The adjustments to the lira in the wake of the application today of the new discount rate could help accelerate discussions on the re-entry of the Italian currency into the European exchange rate mechanism.

This is the second rate cut this year and rates are now back to their level of August 1994 - when Mr Fazio raised the discount rate without informing the then government in advance. This time he told Mr Romano Prodi, the prime minister, just before the announcement was made public.

The Bank of Italy said that for the first time since 1969, inflation had gone below 3 per cent, and the trend for 1997 looked like being under 3 per cent. The communiqué warned the unions to avoid pressing for inflationary wage increases, the one major uncertainty on the horizon.

Fears grow EU may hit Bonn telecom float

By Michael Lindemann in Bonn

Mr Wolfgang Bötsch, Germany's minister for post and telecommunications, and a senior Deutsche Telekom executive went to Brussels yesterday as concern grew that EU regulatory action might hit plans to float 20 per cent of the German state telecoms company.

The two men lobbied Mr Karel Van Miert, the competition commissioner, not to do anything which might delay the introduction of discounts which Deutsche Telekom had planned to offer its corporate clients from November 1.

Any cut in the discounts would upset the sales and profits forecasts made by Deutsche Telekom in the telecoms group which is just weeks away from Europe's largest ever initial public offering of shares.

Mr Van Miert is under pressure from Deutsche Telekom's rivals – which include British Telecommunications as well as leading German companies such as Veba and Mannesmann – to take action against Deutsche Telekom because the company has not extended the same discounts to the capacity which those companies will buy from it to sell on to their customers.

Whether Mr Van Miert decides to issue an injunction or demand other concessions from Deutsche Telekom which might affect next year's results remained unclear last night. Mr Van Miert's spokesman could not be reached for comment.

Officials in Bonn are concerned that Mr Van Miert will intervene. "The EU is not satisfied with the way that the conditions which it has set have been implemented," one official said.

The discount programme – Dial & Benefit – would knock up to 39 per cent off companies' phone bills, with the discount depending on the company's size, and are designed to ensure that clients are not tempted to move to Deutsche Telekom's competitors.

Analysts have warned that the 1997 forecasts for Deutsche Telekoms profits depend on the introduction of the discounts on November 1 and would be distorted if there were any delays.

In the first year after the discounts have been introduced sales are expected to fall by DM400m ($270m), according to one analyst's report. Deutsche Telekom declined to say how its sales and profits forecasts would be affected by a possible delay in the corporate discounts.

Vebacom, the telecoms subsidiary of the Veba conglomerate, yesterday urged Mr Bötsch's ministry to speed up work on a future agency to regulate the telecoms market.

MPs veto deal on Black Sea fleet

By Matthew Kaminski in Kiev

The Russian parliament yesterday adopted a controversial resolution to halt the division of the Black Sea Fleet and declare the Ukrainian city of Sevastopol an exclusive Russian base.

The parliament's measure re-opens a festering sore in the sensitive relationship between Russia and Ukraine, the two largest ex-USSR states, at a time of continuing concern about the health of President Boris Yeltsin.

Mr Leonid Kuchma, Ukrainian president, is expected to meet Mr Yeltsin today. He will demand that the ailing Mr Yeltsin veto the parliament's move.

The fleet remains a possible flashpoint for a Russian-Ukrainian clash. Kiev and Moscow have been unable in the past five years to settle the final divorce terms for the 300-odd-vessel fleet. But, exercising restraint, the two countries have been dividing ships and other assets under a 1992 agreement.

Ukrainian officials are concerned the president's illness might this time prevent him from quelling Russian nationalist demands for a harder line toward Kiev. Mr Yuri Luzhkov, the populist Moscow mayor, this week said Sevastopol belongs to Russia – further antagonising Ukraine.

Mr Hennady Udovenko, the Ukrainian foreign minister, responded that Kiev is "constantly concerned by Russian attempts to question Ukraine's sovereignty and territorial integrity".

The latest Russian demands for sole jurisdiction over Sevastopol last week prompted an outcry in Ukraine. A united Kiev parliament called for the immediate withdrawal of the estimated 50,000 Russian troops stationed in Ukraine should Mr Yeltsin not veto the Russian parliament law.

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Cross Maltese may give Labour a poll victory

Anger over VAT is the one issue which could overturn Eddie Fenech Adami's ruling Nationalist party

By Godfrey Grima in Valletta

Malta's voters go to the polls on Saturday in a general election called eight months early by Mr Eddie Fenech Adami, prime minister, in an attempt to win a third five-year term and push forward the Maltese bid to join the European Union.

But discontent among supporters of Mr Fenech Adami's centre-right Nationalist party could give the main opposition Labour party a chance of cutting the government's share of the popular vote. In the 1992 election the Nationalists won 51.9 per cent of the vote, a 13,000 majority.

Much has changed since the tiny Mediterranean island republic then went to the polls, with the government winning a three-seat majority in the 65-seat parliament.

The political polarisation, which for years set neighbour against neighbour, has virtually disappeared.

The "new" Labour Party is highly visible thanks to Mr Alfred Sant, its 48-year-old Harvard-educated leader who has applied his marketing skills to modernise Labour's image.

He has distanced the party from the socialist policies espoused by Mr Dom Mintoff, the island's premier from 1971 to 1983, whose autcratic style of government led to squabbles with the Catholic church and divided Malta on class lines. Mr Mintoff, now 80 and campaigning to retain his parliamentary seat, seems alone in adhering to the fiery rhetoric of the past.

Mr Sant has embraced the private sector and the free market and promised to eschew radical, divisive reforms in his bid to woo disenchanted Nationalist voters, many of whom have threatened to abstain over last year's imposition of value added tax at 15 per cent in place of customs duty. Labour's promise to reverse the reform could be its most effective electoral weapon.

VAT is blamed for an increase in the cost of living and the the removal of customs duties spelled the end of tax-free wealth for those running an underground economy believed to have been more than a third the size of the national economy.

The electoral appeal of Labour's other pledge, to withdraw Malta's application to join the EU and end participation in Nato's Partnership for Peace, is less certain. Mr Sant has promised to turn Malta into another Switzerland, but has not fleshed out the details of his plan.

Archbishop Joseph Mercieca, head of the island's influential Roman Catholic Church, exhorts the faithful,the majority of Malta's 370,000 inhabitants, not to fail to cast their votes – a high turnout should boost Mr Fenech Adami.

Traditional economic strategy has been reversed

The 62-year-old prime minister is campaigning on his track record and playing on fears of Labour returning to its old policies in his attempt to improve on the 51.9 per cent of the vote he won in the 1992 elections.

In his two terms as premier, Mr Fenech Adami has reversed the country's traditional economic strategy, by liberalising the economy and reducing the role of the public sector.

Growth is 4 per cent this year, about the average during Mr Fenech Adami's rule – and banks are floating on an ocean of cash with deposits of LM1.34bn ($3.7bn) – up from LM479m a decade ago. Inflation is down to 3 per cent.

There has been some deficit financing to promote this prosperity accompanied by a generous welfare state. National debt has climbed to LM500m. But unemployment and poverty are virtually unknown on the island even, though further economic growth may be blighted by a stalled tourist industry, still one of Malta's two main cash income activities – the other is manufacturing.

"People know where their interests lie. They will vote us back in," Mr Fenech Adami predicts, arguing strongly that linking Malta firmly to the EU is the only option for the island.

If he fails this time, it will be because traders, of whom there are thousands, turn against him over the imposition of VAT, which involved them in administrative expense and made their earnings more transparent, and because wage earners are discontented over the rise in the cost of living.

The outcome of the election hinges on which of the two party leaders emerges as the most credible – Mr Fenech Adami or Mr Sant, who hopes to have darkened the nationalist party's reputation enough to win the right to lead Malta into the next millennium.

Dominant 'Gro' fails in her greatest quest

But the departure of Norway's feisty premier will leave a vacuum, writes Hugh Carnegy

No politician has dominated power in Norway like Mrs Gro Harlem Brundtland, who announced yesterday her decision to step down as prime minister.

Her *feisty* – and latterly regal – style invited comparisons with Britain's Mrs Margaret Thatcher, although they were ideological opponents and said to dislike one another.

Mrs Brundtland, 57, became leader of the Labour party and prime minister in 1981. She has been premier for all but one year since May 1986 – and has won respect beyond party lines.

Her departure will leave a vacuum that her successor, Mr Thorbjörn Jagland, will surely find hard to fill. But it is unlikely to cause any serious upset in the world's second largest oil exporter after Saudi Arabia.

The black bounty from the North Sea has made Norway one of Europe's richest nations.

The economy – at least for the time being – is so strong that Norway has easily shrugged off any potential ill-effects from its refusal two years ago to join the European Union – a rejection that counts as Mrs Brundtland's biggest political failure.

Mr Jagland, 46, who has been chairman of the Labour party for the past four years, will step up easily, and unopposed within the party, to the prime minister's office. The deep divisions within the opposition parties means Labour is set to continue in office until next year's general election, despite being in a minority in the Storting (parliament).

But Mrs Brundtland's resignation does mark the end of an era. As the country's first woman head of government, she led a drive by women in Scandinavia countries to achieve near equality in parliamentary and government positions – a record still unmatched elsewhere in the world.

She put the environment in the front line of politics, achieving an international profile as leader of the UN's world environmental commission, though her green credentials were damaged in recent years when she allowed Norwegian whalers to resume hunting minke whales, in defiance of the International *Whaling Commission*.)

Mrs Gro Harlem Brundtland put the environment in the front line of politics AP

Gro, as she is always called in Norway, steered the country through a severe economic shock in the late *1980s, prompted by a sharp* fall in oil prices.

She shifted Labour firmly rightwards to embrace more *market-oriented economic* policies and, when the economy began to pick up, oversaw a tight fiscal policy that *means she bequeathes* Mr Jagland a budget surplus that is the envy of many EU members struggling against big deficits.

But for all her successes, *Mrs Brundtland failed in her* greatest political quest. She was determined to reverse a 1972 referendum decision that Norway should stay out of the then European Common Market. When neighbouring Finland and Sweden decided to apply for EU membership in the early 1990s, Mrs Brundtland argued that for all its oil wealth, Norway could not afford to be isolated from the European mainstream.

The electorate disagreed – *more than 52 per cent voted* in November 1994 to reject *membership, almost* the same as in 1972, just weeks *after Finland and Sweden* had voted to go in.

Mrs Brundtland's leadership – and the minority Labour *government* – were barely ruffled by the rebuff, however. The *deep divisions* between the vehemently anti-EU Centre party *and* the pro-EU Conservative party, former *partners* in *centre*-right coalition governments, ensured Labour could continue in office unchallenged.

That *remains the case* today, allowing Labour the luxury *of arranging* Mr Jagland's succession without *serious disruption a year* ahead of the next general *election*.

Mr Jagland, a career party *activist, is a* more *vocal* advocate of traditional *Labour policies* of wealth distribution than Mrs Brundtland. He has not held a ministerial post, concentrating on the party.

"Some people feel he is more to the left than Gro because of his rhetoric," says *Mr* Henry Valen, a political scientist at Oslo's *Institute of Social Studies*. "But in terms of policy I *think he will be very similar.*"

Mr Jagland is committed to maintaining a tight fiscal *stance to prevent any over*heating in the economy - and to continue to generate *sur*pluses which are being *invested against the day that* oil revenues start to decline. Within 15 *years*, Norway could find itself in difficulties *as* oil income falls and big state pension commitments fall due. Then, the weakness of its onshore economy will be exposed.

That remains on the far political horizon. In the meantime, Mr Jagland is highly unlikely to seek to raise the issue of EU mem*bership again*.

"There is absolutely no *hope that you can do* anything about that, another *referendum would just pro*duce the same result," says Mr Valen. "Only an idiot would try."

Brundtland 'long shot' for UN post

Diplomats in New York *said* last night that Mrs Gro Harlem Brundtland *who* stepped down as Norwegian prime minister *yesterday*, had to be considered a very *long shot for the position* of United Nations secretary-general, writes *Michael* Littlejohns, UN Correspon*dent in New York*.

Mrs Brundtland has paid *frequent visits* to the UN in recent months, prompting *speculation* about her intentions, but she has always brushed aside speculation linking her with the post.

Mr Boutros Boutros Ghali, the UN secretary general, has maintained warm relations with Norway, which backs his agenda for third world development. Diplomats said it appeared unlikely that she would stand unless it was clear that Mr Boutros Ghali had no chance of reappointment.

One Arab ambassador, a supporter *of* Mr Boutros Ghali, said the US would *oppose her*. "They *may* not like the incumbent, but he's *a pussy cat compared to her*. She is a very tough, inde*pendent-minded* lady."

The Security Council is *expected to meet to discuss* the post next month.

Uproar over Russian tax blacklist

By Chrystia Freeland and John Thornhill in Moscow

Russian companies threatened with bankruptcy *for not paying taxes yester*day attacked the govern*ment for its tough new* approach, as Moscow's budget wars intensified.

The enterprises on the government's blacklist, which includes some of the most famous names in Russian industry, accused the Kremlin of everything from suffocating the country's economy with taxes, to simple accounting errors.

But the government, which yesterday told four companies to pay overdue *taxes or face* bankruptcy, was unbowed, telling parlia*ment that tax collection* was the number one priority.

"We have reached a moment of truth - either we collect taxes now or we do not collect them at all," Mr Alexander Livshits, the minister of finance, told a stormy session of parliament.

Mr Livshits said that in the first nine months of this year the government had collected only 71.3 per cent or Rbs172,900bn ($31.70bn) of *budgeted revenue*.

He said that shortfall had *forced deep cuts in* expenditures, which had been held down to *just* 74.6 *per cent of* planned levels, a reduction which has provoked *mounting* protests from unpaid government employees including soldiers, doctors and school-teachers.

The legislature, which heard a trade union chief's plans for a national general *strike* on November 5 before listening to the minister of finance, voiced disgruntlement with the tightening fiscal squeeze in a non-binding resolution which condemned the government.

"The *financial system* of Russia is functioning in an *unstable, extremist* way," the critique, which won unanimous backing, said. "The clampdown on inflation is carried out *against a* background of falling gross *domestic product and invest*ment and the worsening of *companies' financial situa*tions which is deepening the crisis further."

In a verdict shared with western financial institutions, the Russian government has identified flabby tax collection as the chief source of economic woes. To break the national tradition of not paying taxes, the government has taken the dramatic step of warning four major companies, including Kamaz, Russia's leading truck-maker, and AZLK, the Moscow producer of the *Moskvich car, that they will* face bankruptcy proceedings *if they do not pay their tax* bills.

Kamaz responded by accusing Moscow of an accounting error. "Kamaz fell into that list by mistake," a spokesman told the Russian news agency Interfax, saying the government had failed to take into account state orders for Kamaz trucks.

Two other enterprises on the list, the Achinsk Alumina Factory in Siberia and the Krasnodarnefteorgsintez refinery, in southern Russia, warned that if they are *closed* the cities in which they are based will lose their *sole employers*.

Western and Russian economists *said the move could* offer an immediate boost to Moscow's tax *collection* drive, but that it was not enough to solve underlying flaws in the tax system.

Mr Vladimir Konovalov, chief economist at the World Bank mission in Moscow, said the measure "is clearly important but it will not be the saviour. To crack the tax revenue problem will take more than bankruptcy, you have to work it out on many different levels."

'Slimline' EU treaty drafted

A group of legal experts yesterday presented the European Parliament with a new slimline version of all treaties governing the European Union, Lionel Barber writes from Brussels.

The draft treaty would scrap 753 articles in favour of a consolidated text of 512 articles which is intended to be more readable and accessible to the ordinary citizen.

The draft treaty is the *work of* legal and constitutional experts at the Robert Schuman centre at the European University in Florence, *co-ordinated by* Mr Claus Ehlermann, the former top civil servant in *charge of* competition policy at the European *Commission*.

It is the first time such an integrated text has appeared, and should complement similar efforts under way in the Maastricht treaty review conference *(IGC)*.

EU leaders agreed last June that an *urgent* need existed for rationalisation of EU treaties which *cover the* original European Steel and Coal Community, the European Atomic Energy Community, the treaty of Rome, the single European Act, Maastricht, and other lesser known texts which have been stuck together in an ad hoc fashion over more than 40 years.

Many observers complained the 1991 Maastricht treaty was incomprehensible to the public, and one British cabinet minister boasted he had never read the text.

European University Institute Tel 00-39-55-46851 Fax: 00 39 55 4685298 Web: http://www.iue.it

GM heads for early labour accord in US

By Richard Waters in New York and Bernard Simon in Toronto

General Motors is believed to be on course for early agreement on a new three-year labour contract in the US, following the settlement on Tuesday of a strike at its Canadian operations.

The 20-day stoppage by the Canadian Auto Workers union had effectively halted labour negotiations between GM and the separate United Auto Workers union in the US, because the two unions are careful not to undermine each others' efforts. By settling the dispute north of the border, the company has opened the way to completing a US labour deal which is widely thought to have been agreed already in principle.

The US negotiations, revolving around politically sensitive issues such as out-sourcing and downsizing, have been the country's most hotly anticipated labour talks of the year. In the wake of a strike over out-sourcing in March that brought GM's North American operations to a standstill, they were also thought to carry the risk of a prolonged stoppage.

Recent indications, however, suggest that the company and the UAW are close to agreeing in principle the same pattern contract already adopted by Ford Motor and Chrysler. This would guarantee 95 per cent of existing UAW jobs at the company, while establishing a new, lower wage scale for workers in parts plants.

The full impact of this pattern agreement, however, depends on the details of each individual deal. "The big question is how you define the '95 per cent,'" said Mr David Healy, an industry analyst at Burnham Securities. The measure could be applied company-wide, as at Chrysler, or to individual plants, as at Ford. Also, the 95 per cent test could be applied only to workers at particular plants, or only to those with a certain level of experience.

The Canadian agreement, while also dealing with issues such as out-sourcing, was not expected to have an impact on the direction of the US negotiations. North of the border, GM achieved short-term cost-cutting objectives while not resolving broader issues likely to come up again when the new contract expires in 1999.

Under this week's deal, GM Canada will be free to sell two parts plants in Oshawa and Windsor, Ontario. It has agreed to provide early retirement incentives to workers at the plants.

However, the company has agreed not to close or sell any other plants in Canada during the three-year contract. It is also committed to replacing any union job lost to low-cost outside suppliers through out-sourcing.

GM faces an especially tough decision over the future of its assembly line at Ste-Thérèse, Quebec. The plant produces Camaro and Firebird models, whose sales have declined in recent years. GM Canada workers were expected to ratify the new contract yesterday, and operations to return to normal by the weekend.

The Canadian strike is likely to have cost GM more than $250m, compared with the $900m losses caused by the March strike in the US, said Mr Healy.

US election focus switches to Congress

By Jurek Martin in Washington

US ELECTIONS November 5

US political attention is switching from a presidential election whose outcome looks increasingly certain to the increasingly frenetic race for control of Congress. President Bill Clinton and Mr Bob Dole, his Republican challenger, yesterday both campaigned in Florida, one of the few states which remain very competitive in the presidential race.

But there was bad news for Mr Dole from California, where the latest Los Angeles Times poll found Mr Clinton still 20 points up (54-34 per cent). Another recent survey had put Mr Dole's deficit at only 10 points.

The Republican candidate also seems to have given up on another key state, New Jersey, cancelling TV commercials on stations in New York and Philadelphia which dominate the north and south of the state. This suggests Pennsylvania is also now considered unwinnable.

In New Jersey, the apparent disappearance of Mr Dole may or may not adversely affect the chances of Republican Congressman Dick Zimmer beating Congressman Robert Toricelli for the Senate seat held by retiring Democrat Mr Bill Bradley. But it certainly leaves Mr Zimmer fighting on his own, like other party candidates around the country who are increasingly separating themselves from the presidential ticket.

Republican backbiting in the face of probable defeat has become marked. Governor Tommy Thompson of Wisconsin, once considered a possible Dole running-mate, has gone so far as to describe the national campaign as "the second worst in history", behind President George Bush's four years ago. Governor George Voinovich of Ohio has refused to attend some Dole rallies.

Renewed emphasis is now being placed on the need to deny Mr Clinton a second term accompanied by Democratic control of Congress, for which a net gain of three seats in the Senate and 18 in the House is required.

Mr Haley Barbour, the party's national chairman, said on Tuesday: "If Clinton is re-elected, heaven forbid, the last thing the American people want is for him to have a blank cheque in the form of a liberal Democratic Congress."

The president himself now appears quite sensitive to the possible national preference for a divided government. Though he regularly appears at rallies with Democratic candidates, he usually stops well short of explicitly calling for their election as well as his own. But he does raise funds avidly on behalf of the party.

Most broad polls give the Democrats an edge in the race for Capitol Hill, but their margins range from 2 points, not necessarily enough to regain control, to 8 in the latest New York Times/CBS survey, which probably would be sufficient. Barring a last minute flood tide, any Democratic majority in the new Congress would likely be small.

Bill Clinton is mobbed by supporters at a campaign stop in Florida yesterday *Reuter*

AMERICAS NEWS DIGEST

Air disaster in Ecuador

More than 20 people were killed and about 50 injured when a US cargo aircraft crashed into the densely populated centre of Manta, a fishing port 130 miles from Ecuador's capital Quito, on Tuesday night. Rescue teams expect the toll to rise as bodies are recovered from the remains of five blocks of buildings.

The aircraft, belonging to Miami-based Millionair Cargo and with a US crew, was carrying exports of flowers loaded in Quito and seafood from the coast, as well as 19,000 gallons of fuel for its regular flight to Miami. Although the cause of the accident has not yet been officially determined, witnesses say the aircraft caught fire shortly after take-off.

Coming only three weeks after an Aeroperu airliner crashed shortly after take-off from Lima with no survivors, the tragedy in Manta will provoke further questions about Latin American air safety. Last November US aviation authorities downgraded the air safety classification of Ecuador, Peru, Bolivia, Venezuela and Colombia. *Justine Newsome, Quito*

Jamaica calls off power sale

Jamaica has cancelled the sale of its power company because neither US company which was interested made a "sufficiently attractive" bid, said Mr P.J. Patterson, the island's prime minister. Houston Industries Energy of Texas and Southern Electric of Atlanta, Georgia, were rejected because "their offer price was too low, their proposed rates too high and their dividend policy unacceptable".

The Jamaican company, which has a monopoly on transmission and distribution of electricity, and generates 86 per cent of the island's power, was put up for sale three years ago.

It is not clear whether the government will restart the effort to privatise the company. *Canute James, Kingston*

US clears Cuba aid flights

Aircraft carrying food, clothing and medicine for Cuban victims of Hurricane Lili will be allowed to fly from the US directly to the island, Washington said yesterday. The special permission is intended to help Catholic Relief Services, a Baltimore-based charity organisation, speed humanitarian aid to the island. Direct flights were halted in March, a month after Cuban MiGs shot down two small aircraft belonging to a Miami-based exile group, killing four people.

Allowing aircraft to carry humanitarian aid was permissible under federal laws limiting trade with Cuba, a White House official said. On Monday, the US Treasury Department had said it was working on travel permits for relief workers.

Plans to provide the aid have produced bomb threats against charities and protests from some who claim supplies for needy Cubans will be pilfered by President Fidel Castro's government. *AP, Washington*

Colombia extradition move

A Colombian senate committee has approved a proposal to change the constitution and reintroduce the extradition of nationals wanted for trial in other countries. The move represents an important change of attitude among the country's political leaders, mainly in response to US pressure. However, the change still has to be approved by congress.

The new article stipulates that those who surrender voluntarily and those who could face the death penalty cannot be extradited.

Extradition was banned in the 1991 constitution after a campaign of bombings and assassinations by drug traffickers opposed to extradition to the US. In the past few days leaflets and graffiti have reminded Colombians of the bloodshed, in a clear attempt to intimidate congress. The government has shown no enthusiasm for the debate, saying it was more important to push through legislation to increase penalties for trafficking and related activities. *Sarita Kendall, Bogotá*

Colorado packs its ballot paper

State will be voting on lot more than just Clinton, writes Jurek Martin

California may be the state best known for government-by-referendum, with ballot propositions over the past 20 years setting or reversing national trends on issues ranging from property taxes, illegal immigration and the environment and, possibly this year, affirmative action.

But Colorado, the Rocky Mountain pace-setter, now offers fair competition, and not merely because it is relatively easy to get a proposition on to ballot papers. It was the first state in the union, in 1990, to approve term limits on members of Congress, and in 1992 it voted to rescind any local laws banning discrimination against gays, both later thrown out as unconstitutional by the Supreme Court.

This year is proving no exception. On November 5, Coloradans face no fewer than 12 referendum questions. Some of them, as the Denver Post modestly put it over the weekend, "could put the state on the cutting edge of public policy".

The most eye-catching would make churches and some charitable institutions liable to tax on property holdings used in their ostensible business (real estate they sub-let to other interests already attracts tax).

Another, very much in tune with the times, places tight new limits on corporate, union and individual donations to political campaigns. It also seeks voluntary spending ceilings on particular races, ranging from $50,000 for a House seat to $2m for the governorship.

Perhaps most controversial is the so-called parental rights amendment, which would insert into the state constitution the seemingly innocuous phrase that parents have the inalienable right to "direct and control the upbringing, education, values and discipline of their children."

However, this is the brainchild of a conservative Virginia advocacy group and is strongly supported by the Christian right. Its sponsors freely admit it should be seen as the answer to the liberal-inspired equal rights amendment for women, which eventually foundered at the national level in the late 1970s.

They say passage would demonstrate that the "social worker, educational, bureaucratic establishment" is not "impregnable". They object specifically to the UN Convention on the Rights of the Child on grounds it could give children a legal right to challenge parental decisions.

Its opponents argue that it would turn state schools into "political and ideological battlegrounds" and might impede the access of teenagers to information on subjects like healthcare and birth control.

One local poll suggested the amendment might pass, though it would face the sort of legal challenges that undid both the term limits and anti-gay rights proppositions.

It has already become a complicating factor in the tight race for the seat of retiring Republican Senator Hank Brown. This pits Republican Congressman Wayne Allard, who favours it, and Mr Tom Strickland, a Democratic lawyer-lobbyist, who opposes it and whose own campaign appeals to women and minorities are very much modelled on those of President Bill Clinton.

The president holds a 47-41 point edge over Mr Bob Dole in the latest Coloradan poll, having carried the state by 40-36 per cent in 1992, with Mr Ross Perot scoring 23 per cent. Mr Roy Romer, popular Democratic governor who is not up for re-election, is a leader of the campaign against the amendment, as is Ms Pat Schroeder, retiring 12-term liberal Congresswoman from Denver.

But Colorado, once a bastion of western Republicanism, has become much more unpredictable of late. The party can still boast two senators (one, Mr Ben Nighthorse Campbell, elected as a Democrat), four House members out of six and a state legislature under its control.

But it has had a Democratic governor for 20 years. In Mr Romer, in Mr Dick Lamm, his three-term predecessor and this year's disappointed Reform party candidate, and in former senator and congressman Tim Wirth it has produced leaders who tend to be strong on the environment but otherwise do not fit the liberal prototype – Ms Schroeder arguably excepted.

The state's amenable lifestyle and improved facilities have attracted much new investment, particularly in the high technology sector. But, typically, the booming university town of Boulder, 25 miles from Denver and Colorado's liberal heart, is now in the throes of deep angst over whether to accept any more.

The best characterisation of the state is to be found in the Almanac of American Politics, where it is described as "a laboratory of reform – left, right and centre".

Even animal rights activists are into the act this year. Amendment 14 would "prohibit the taking of wildlife with any leghold trap, instant kill body-gripping design trap or by poison or snare". But it would still allow shooting. The buffalo, the state emblem, may have been rendered all but extinct by the rifle, but at least that was done in the manner of the old wild west.

ADM faces task of removing taint of price-fixing scandal

By Laurie Morse in Chicago

Archer Daniels Midland may have settled its price-fixing cases with the US government, but the grain processing company remains dogged by image problems. Its biggest shareholders are in open revolt, its chief executive is under fire and further evidence about its market practices may still come to light if related anti-trust cases come to trial.

Over the weekend, a US trade group, the Agribusiness Council, called for the ousting of Mr Dwayne Andreas, ADM's long-time chairman. Mr Nicholas Hollis, the council's president, said: "Andreas's exit could be the only way the scandal can effectively be put behind the company."

The company pleaded guilty earlier this month to two criminal counts of price fixing in the global lysine and citric acid markets, ending a four-year government probe of its marketing activities, and agreed to a record anti-trust fine of $100m.

Although the government settlement leaves ADM immune from further criminal prosecution, two of its top executives do not share that protection.

Mr Michael Andreas, son of the chairman and long his heir apparent, remains open to justice department prosecution in the price-fixing case, as does Mr Terrance Wilson, former head of ADM's corn processing division.

Both men stepped down from the company last week, Mr Andreas taking temporary leave and Mr Wilson retiring. The two are alleged to figure prominently in the secret tape recordings that former ADM executive Mr Mark Whitacre made for the justice department.

Mr Whitacre himself subsequently became the subject of an official investigation when ADM dismissed him and accused him of fraud.

The tapes remained secret under ADM's agreement with the government. However, lawyers say they could still be introduced as evidence if Mr Wilson or Mr Andreas were indicted and chose to face trial.

ADM's competitors in the markets for lysine, an animal feed additive, and citric acid, could also drag the company's name back into the news. Its three principal competitors in the lysine markets independently settled price-fixing charges with the justice department in August. However, one, Ajinomoto of Japan, attempted to change its plea of guilty to "no contest" in a Chicago court last week. This angered the presiding judge, who gave the company three weeks to either plead guilty or face a trial.

The justice department is still investigating price-fixing activity in the citric acid market, and is also continuing its pricing probe for high-fructose corn syrup. ADM is bound to co-operate and supply documents in those inquiries, which could still produce indictments.

At the company's annual meeting last week, institutional shareholders delivered a sharp message to management: arrange for a more independent board or face further pressure.

Shareholders were shaken by the management failure to communicate about the case. The company's guilty pleas and the fact that the $100m fine and related expenses wiped out ADM's third-quarter earnings added to the dissent.

Although the costs of the case are easily borne by ADM, which had $13bn in sales last year, the affair has raised fresh questions over the company's leadership. With Mr Michael Andreas out of the line of succession, at least temporarily, there has been no public discussion of who will follow the elder Mr Andreas, who is 78, into the chairman's office. "Dwayne Andreas is still the man for the job," said one loyal shareholder at the annual meeting, "He's been great for this company, and he's going to hang on."

ADM has long been known for its clout in political circles and has liberally supported both sides of the US political divide in efforts to wield influence in Washington. But whether Mr Dwayne Andreas stays or goes, the company has undoubtedly lost some of its swagger.

NEWS: WORLD TRADE

Mercosur trade group under fire

By Guy de Jonquières

Mercosur, the four-nation Latin American trade grouping, is seriously distorting international trade flows, handicapping member economies' performance and discriminating against other countries' exports, according to a World Bank study.

"These findings appear to constitute the most convincing, and disturbing, evidence produced thus far concerning the potential adverse effects of regional trade arrangements," the study says. It calls the findings a "smoking gun", which shows such arrangements can be economically harmful.

The unpublished study, by Mr Alexander Yeats, principal economist in the World Bank's international trade division, is expected to prove controversial with Mercosur's members – Argentina, Brazil, Paraguay and Uruguay.

The findings may also reinforce the World Trade Organisation's efforts to tighten its disciplines on regional free trade pacts. Trade experts fear such pacts could undermine multilateral principles by fragmenting the global economy into discriminatory trade blocs. More than 100 regional groupings have been formed, and almost all WTO members belong to at least one. WTO ministers are expected to discuss the need for stronger rules when they meet in Singapore in December.

Mr Yeats says Mercosur's members have artificially diverted trade flows by maintaining much higher tariffs and non-tariff barriers on imports from third countries than they impose on trade with each other.

He says that, as well as penalising exporters in other countries, these preferential arrangements are causing producers in Mercosur economies to concentrate on selling in each other's markets products which are not internationally competitive.

Since Mercosur was set up in 1991, trade between its members has grown strongly, while their exports to many other important markets have stagnated or declined.

Mr Yeats' study finds intra-Mercosur trade has expanded most rapidly in capital-intensive products, such as vehicles and machinery, which are heavily protected against imports from outside the grouping. Furthermore, Mercosur's members have had little success selling most of these products on third markets.

"The evidence suggests that Mercosur is becoming less, rather than more, internationally competitive in products where trade is most rapidly reorienting towards the region," the study says. "Quite obviously, this has detrimental effects on third country suppliers."

The study argues that Mercosur economies are also suffering, because continued protection from international competition gives producers inside the grouping no incentive to become more efficient.

It says motor vehicles, which are sheltered by external tariffs of as much as 70 per cent, exemplify the problem. Although intra-Mercosur trade in vehicles more than doubled between 1990 and 1994, independent analyses have found those produced inside the grouping to be more expensive and of much poorer quality than vehicles made elsewhere.

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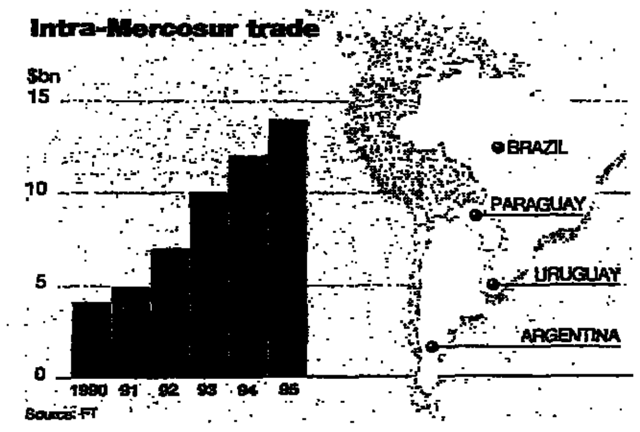


EnerTel and BT win Dutch phone licences

By Gordon Cramb in Amsterdam

The Dutch government yesterday selected two groups to provide fixed-line telecommunications services which will bring the first direct competition to KPN, the privatised monopoly.

The transport ministry said licences would be awarded to Telfort, a joint venture between BT of the UK and the Dutch national railways, and EnerTel, which groups regional energy companies and providers of cable television.

The decision is a blow for Global One, a leading international alliance in the industry, which was a third applicant for a national licence. Global One links France Télécom and Sprint of the US with Deutsche Telekom, the German utility in which shares are about to be floated. The ministry said it "did not meet the legal minimum requirements in one area", which officials declined to specify.

EnerTel, whose international partner is Northern Telecom of Canada, has also been developing an infrastructure.

One reason for the rejection of Global One is thought to be that it had least to offer in terms of an established network. The Netherlands, in spite of a population of only 15.5m people, has a telecoms market estimated by Telfort at some Fl15bn a year, Europe's sixth biggest.

The tie-up between BT and NS Telecom is already offering business users international connections through the Concert system developed with MCI, BT's US partner. Telfort is now to invest Fl1bn in broadening its service through a fibre optic network which NS is laying along its tracks.

This will allow it to provide rented lines when the full liberalisation of the market takes effect from next July. The government also has more than 1,300 regional licences on offer for voice telephony.

Several regulatory issues remain to be resolved, however, in particular those governing interconnection of calls between rival services. Prices which KPN would charge its competitors for this have not yet been set.

Also unclear is whether customers who change their regular supplier would be able to keep the same telephone number, and how many extra digits would need to be dialled by those wanting on occasion to use another company.

Mr Koos van der Meulen, Telfort managing director, said yesterday: "We would like to see equal access, so if you pick up the phone you just select one, two or three." This is similar to the system being instituted in France, but more complex codes apply in other deregulated markets.

A further problem for the ministry is the involvement of KPN in the cable TV sector. The company owns 77 per cent of Casema, the country's biggest cable provider and a participant in EnerTel. Mrs Annemarie Jorritsma, transport minister, said this week it was not enough for KPN to deconsolidate the business from its group accounts and appoint a separate supervisory board.

Bigger must be better, say cruise operators

With the 250,000 ton ship only three years away, **Scheherazade Daneshkhu** examines where the cruise industry is headed

The 100,000 ton Carnival Destiny today begins a brief spell of fame as the world's largest cruise ship. Even as the $400m ship was being named in Venice, yet bigger ships are planned as cruise companies compete to build ever more cost-effective ships.

The Carnival Destiny boasts the world's largest floating casino, four pools, seven restaurants and a 1,500-seat theatre. From its base in Miami it will take 3,400 passengers on week-long cruises around the Caribbean. It breaks the cruise ship record held by Princess Cruises, part of the UK's P&O shipping group, whose 77,000 ton Sun Princess was launched last year. But Princess Cruises will retake the record in 1998 with the 104,000 ton Grand Princess.

Both companies will be overtaken in 1999 when Seattle-based Westin Hotels launches the $1.2bn America World City. At 250,000 tons and with 8,600 passengers and crew, it will be more than twice the size of today's largest cruise ships.

The trend towards ever bigger ships is driven by economies of scale which make large ships increasingly cost-effective in catering for the demands of a rapidly-growing industry.

The number of passengers in North America, which accounts for three-quarters of the total cruise market, has risen from 3.6m in 1990 to just under 5m this year. In Europe, the second largest market, passenger numbers have doubled from 530,000 to more than 1m at the same time.

Gone are the days of seafaring cruise liners; many of today's ships offer a mass-market alternative to traditional land-based holidays, although niche operators such as Cunard remain in the luxury market.

The typical passenger today begins the cruise by flying to a destination such as the Caribbean or Mediterranean, often choosing to combine one week on land with a one week regional cruise.

Mr Michael Muller, managing director for Europe at Carnival Cruise Lines, which owns the Carnival Destiny, says its ships are destinations in themselves: "We do not compete with other cruise lines; we compete with land-based resorts. These ships are floating resorts with every facility you would find on land."

Westin's ship will bear an even stronger resemblance to a floating hotel. Three-quarters of its rooms will be contained in three hotel towers rising eight storeys above the main deck. It will also have four 400-seat high-speed boats to ferry passengers ashore.

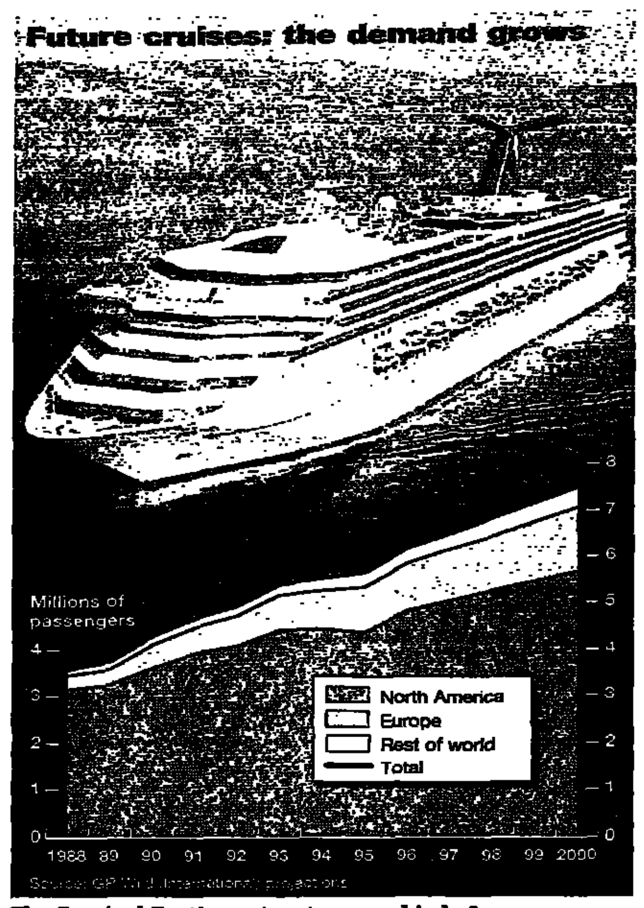
Mr Peter Wild, managing director of GP Wild (International), the UK-based cruise consultants, believes the ship may be too large, leading to diseconomies of scale. But Mr Juergen Bartels, chairman and chief executive of Westin Hotels, is confident the ship will have high occupancy all year by targeting conferences, incentive travel, and the resort market as well as the traditional cruise market.

The cruise industry has expanded from its traditional base of middle-aged couples to appeal to younger travellers, with prices and facilities which compete with land-based holidays. The new ships usually include large play areas and fun pools for children, health and fitness clubs for younger adults and more informal restaurants and bars. Mr Muller says that passengers' average age on Carnival Cruise Lines is 40, with families accounting for almost 30 per cent of customers.

In the UK too – the second largest cruise market – more than half those on a cruise last year were cruising for the first time, helped by the entry of Airtours and Thomson, the mass market package holiday companies, into the cruise market.

But there are signs that the 30 ships currently on order might lead to an oversupply.

Mr Wild believes that as a result the cruise market will be increasingly characterised by winners and losers in the next few years. "Heavy discounting and a downward pressure on rates would seem probable with survival depending increasingly on effective marketing, control of costs, improved efficiency and the maximisation of marginal revenues," he says. "1998 is likely to be a watershed for the industry."



The Carnival Destiny caters to a new kind of passenger – arriving by air for a week-long turn round the Caribbean

E2

NEWS: ASIA-PACIFIC

HK tycoon plays down China links

By John Ridding in Hong Kong

Mr Tung Chee-hwa, the shipping tycoon and a front-runner to head Hong Kong's post-colonial government, said yesterday that a 1980s rescue package for his family-controlled Orient Overseas group was financed partly by Chinese interests.

But the move, involving a US$120m capital injection, would not affect his decision-making should he succeed in becoming the territory's chief executive after next July's return to Chinese sovereignty, he added.

His comments seemed an attempt to pre-empt speculation about the issue as the selection process enters a decisive phase. Mr Tung was outlining his platform, stressing his commitment to Hong Kong's autonomy but emphasising the need for consultation rather than confrontation with China.

In a gesture likely to reassure the business community, Mr Tung indicated that should he win, he would seek to retain Mrs Anson Chan, chief secretary and deputy to the governor. "I would like to work with Anson Chan; I hope she shares this view," he added.

He also stressed the importance of Chinese values. "My philosophy is that one should emphasise obligations, not that we should forget about rights". While freedom of the press and expression would be upheld in Hong Kong after the handover, the media should adopt a "responsible" attitude.

On the rescue of the Orient Overseas shipping group, which almost went under as a result of the industry crisis of the early 1980s, Mr Tung said Chinese interests were involved in a syndicate headed by Mr Henry Fok, a Hong Kong businessman and a senior adviser to Beijing.


Chan: support from Tung

He declined to name the other investors.

The subject has prompted concern among local politicians. "It obviously isn't good if the chief executive is indebted to the sovereign power," said Ms Emily Lau, an independent legislator. She called for further details.

Despite signals of support from senior Chinese leaders, Mr Tung dismissed claims his selection was a formality. "It is a real race. We all want to win," he declared, referring to his rivals: Mr Peter Woo, a businessman; Sir Ti Liang Yang, the former chief justice; and Mr Simon Li, a former appeals court judge who announced his candidacy yesterday.

A decision on the chief executive is expected by early December. Beijing will appoint the successful candidate after nomination by a 400-member committee.

● Reuter reports from Beijing: China is expected to pass a law soon empowering Hong Kong's courts to handle criminal or civil cases involving Chinese troops to be garrisoned there after 1997.

Pakistan awaits devaluation backlash

The government of Ms Benazir Bhutto and the International Monetary Fund began a long wait yesterday to see whether the Pakistan public would accept the 8 per cent devaluation and Rs40bn ($995m) austerity package announced on Tuesday.

A degree of nervousness was evident at the outset both in the furtive way the devaluation was announced and in exhortations to the press from Mr Muhammad Yaqub, central bank governor, to describe it responsibly.

Initially the new central rate for the rupee was simply released without comment in a central bank circular. Several hours later an embarrassed Mr Makhdoom Shahabuddin, junior finance minister, had to admit to jeering opposition members in the Senate that he had not been informed about it.

The authorities' anxiety is understandable after a wave of strikes and demonstrations blew the original budget out of the water in June. The government had to revoke part of the increase in the despised general sales tax, which meant it would miss by a long way its targeted deficit of 4 per cent of gross domestic product.

There were no signs of demonstrations as the public digested the new package yesterday, but there were widespread complaints from opposition leaders, businessmen and social workers about its inflationary effect and likely impact on the poor.

Petrol and gas prices have been increased by 10 per cent, which will affect food prices because of transportation costs. Most of the Rs27bn spending cuts will come from the development budget which is being reduced by about a quarter, even though the government says core projects will not be affected.

Mr Sartaj Aziz, leader of the opposition Pakistan Moslem League, said the government would be unable to implement its measures and had won, at most, a few weeks' breathing space.

But despite the unexpected size of the devaluation, the government has been careful to act gingerly on more contentious issues. Defence is not being cut in nominal terms, and a modest yield of only Rs2bn is targeted for the new tax on agriculture.

Ms Bhutto has also departed from her previous approach by putting Mr Yaqub in charge of the package. A respected economist, he was installed at the central bank by her predecessor, Mr Moeen Qureshi, at the time of Pakistan's last serious crisis in 1993.

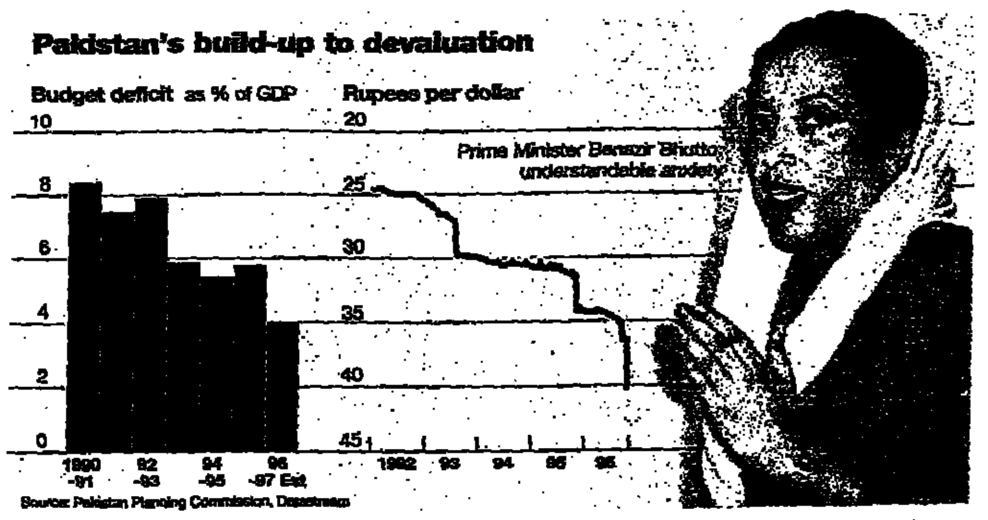
Mr Yaqub is respected at home and abroad for his impartiality and technical expertise. Bankers say this may lend more authority to the new programme than if it were handled by Ms Bhutto's own economic team, which has acquired a reputation for mismanagement. But there remains uncertainty over whether the government has the authority, because of its toleration of corruption, to push through such an austerity programme.

It is under increasing pressure from President Farooq Leghari to clamp down on kickbacks, which have begun to exasperate Pakistanis. Parallel to the developing economic crisis has been a whispering campaign against the prime minister, suggesting the president might replace her with an emergency administration of technocrats.

Ms Bhutto insists she will see out her term, which expires in 1998. But she is unlikely to do so if the new IMF programme collapses, not least because that would produce an immediate balance of payments crisis with which Pakistan is ill-equipped to cope. Reserves now stand at only $781m, worth less than four weeks of imports.

Presenting the package, Mr Yaqub said the reserves had stabilised after falling from $1.7bn in June. The package was essential for producing sustainable economic growth and a viable external payments programme, he said. Although it involved costs, the price of inaction would be higher, and the economy would not be too badly affected because of the relatively strong trend in agriculture.

But bankers argue that the package will push up the price of imports and do little to boost exports.



Prime Minister Benazir Bhutto: understandable anxiety

Ms Fatma Shah of HSBC James Capel in Islamabad calculates that it takes a 10 per cent devaluation to raise exports by 3 per cent. Other businessmen say the government must do more to remove administrative obstacles to exporters.

Trading on the Karachi Stock Exchange yesterday appeared frenetic. But Mr Mohammad Saleem, trading director of Khadim Ali Shah Bukhari, said volume was average and that trading was confined to short-covering by local investors in a market that had been heavily oversold.

"I've not really seen any new money coming in, and I don't believe it is there now," he said. "The IMF programme is only one variable. A more important factor is whether the government can contain inflation and stimulate growth.

"The trade deficit cannot be reduced simply by cutting the exchange rate. We need strong additional measures to improve government's administrative efficiency."

The real challenge for Ms Bhutto now is to deliver that better quality of government.

Peter Montagnon and Farhan Bokhari

Slowdown in income growth has implications for multinationals

Urban Chinese growing poorer

By Sophie Roell in Beijing

Many of China's urban residents are getting poorer, in spite of the country's strong economic growth, according to a government survey.

A study of 35 leading cities indicated that the incomes of as many as 40 per cent of urban households had fallen in real terms, China's state statistical bureau revealed yesterday in a briefing on the country's economic performance in the first nine months of the year.

A spokesman for the agency said that while, on average, urban incomes had risen by 3.4 per cent in the first three quarters, the rate of growth had slowed – and many low-income households, pensioners, and workers in industrial enterprises were "facing difficulties".

While the central government, fearing social unrest, has for some time been placing emphasis on reducing disparities in wealth between the prosperous coastal regions and the rest of China, and between urban and rural residents, the survey suggests a growing gap between rich and poor even within cities.

The slowdown in growth of urban incomes – average annual income in cities is still only around Yn3,249 ($390) – also has mixed implications for multinational companies banking on selling products to a group of increasingly affluent urban consumers.

The discouraging figures come amid what was otherwise a robust economic performance.

Fears earlier this year that China might register a trade deficit in 1996 appear to have been allayed as a surplus of $8.1bn was recorded up to the end of September.

The volume of contracted foreign investment was $57bn, up 13 per cent on last year, as was actual investment, which at $29.2bn had advanced 17 per cent.

Meanwhile, inflation was firmly under control, rising only 6.6 per cent in the first nine months of the year. This was well within the government's target of 10 per cent for 1996.

The economy continued its steady growth, with gross domestic product up 9.6 per cent.

The State Statistical Bureau also forecast a record grain harvest of more than 480m tonnes this year – up from 460m tonnes last year – suggesting government policies aimed at boosting cereal production are proving successful.

ASIA-PACIFIC NEWS DIGEST

Singapore to cut growth aim

Singapore is to adjust its economic growth forecast for the fourth quarter of this year and for the whole year, Singapore national television said yesterday. Economists said they expected the forecasts to be revised downward after a recent spate of lacklustre economic indicators. Most are predicting 1996 gross domestic product growth will fall below the government's forecast 7-8 per cent range.

The television quoted Mr Yeo Cheow Tong, trade and industry minister, as saying the new forecasts will be announced in mid-November. On Monday, Singapore said non-oil exports fell 8.2 per cent in September from a year earlier. Economists predicted the downward revision was likely to put pressure on the Singapore dollar to depreciate against its US counterpart and could cause further falls in share values. Some predicted that capital leaving Singapore's stock market might seek better returns in Malaysia or Hong Kong, where share values have been rising. *James Kynge, Kuala Lumpur*

Burmese students protest

Hundreds of Burmese students took to the streets of Rangoon yesterday to protest against police brutality, the first such open anti-government action in several years. The six-hour demonstration dispersed peacefully with no student arrests, but the incident evoked memories of 1988, when similar protests grew into full-scale unrest that eventually led to the military junta killing thousands.

The students claimed their protest was not political but troops sealed off access to the home of democracy leader Ms Aung San Suu Kyi, which until a week ago was the focus of anti-government activity. The deputy chairman of Ms Suu Kyi's party, Kyi Maung, has been detained for questioning. *Ted Bardacke, Bangkok*

Hamanaka ex-chief quizzed

Tokyo prosecutors have questioned a former Sumitomo official who was superior to Mr Yasuo Hamanaka, the company's former chief copper trader, the Mainichi Shimbun reported in its evening edition yesterday. The newspaper alleged that the former official had ordered Mr Hamanaka to make copper trades that led to huge losses in the 1980s.

Mr Hamanaka was arrested on charges lodged by his former employer alleging forgery in connection with 10 years' unauthorised copper deals that lost the trading house an estimated $2.6bn. Prosecutors who arrested Mr Hamanaka, 48, on Tuesday, said they had taken him to the Tokyo Detention Centre used to hold suspects awaiting charge or trial. *AFP, Tokyo*

IMF warning to Cambodia

The International Monetary Fund has issued another warning to the Cambodian government that the country's failure to control logging activity could result in the suspension of the Fund's three-year structural adjustment agreement. The IMF said that unless a strict monitoring and control policy, which ensures revenue from logging ends up in government coffers, occurred by the end of the month, Cambodia could lose the remaining $60m in IMF loans scheduled to be disbursed over the next 18 months.

Although a ban on the export of freshly cut timber is in force, the Cambodian military has the exclusive right to log. Environmental organisations say the export ban is widely flouted. King Norodom Sihanouk expressed outrage earlier this week at the uncontrolled rate of logging in the country. *Ted Bardacke, Bangkok*

Australia-India test ban link

Australia and India have buried differences over a global nuclear test ban treaty and can now join in pushing for nuclear powers to disarm, Australian Foreign Minister Alexander Downer said in New Delhi yesterday. Mr Downer told reporters the two nations had agreed that their widely divergent stands on the Comprehensive Test Ban Treaty (CTBT) should not affect expanding bilateral ties.

Last month, Australia shepherded the CTBT resolution, which won overwhelming approval at the United Nations. India had blocked approval of the treaty at the Conference on Disarmament in Geneva, and refused to sign the UN resolution. Mr Downer said that during talks with Indian officials on Tuesday, it was clear the two countries could co-ordinate future disarmament steps, since they both favoured eventual elimination of nuclear weapons. *Reuter, New Delhi*

Philippines 'job tout' held

Philippine police have arrested a man whom they say enticed Sarah Balabagan, convicted of murdering her Arab employer, to work as a domestic helper in the United Arab Emirates by allegedly faking her age. They said he was detained while offering jobs to applicants who wanted to go abroad. He will be transferred to Manila later to face charges of illegal recruitment filed by the Filipina maid, who was spared the death penalty in the UAE. *AFP, Manila*

Australians call for rates cut as inflation slows

By Nikki Tait in Sydney

Australia's inflation rate slowed to 2.1 per cent, year-on-year, in the September quarter – 1 point down on the 3.1 per cent seen in the June quarter and the lowest figure for two years.

The measure of "underlying" inflation – which attempts to strip out one-off influences – showed a year-on-year increase of 2.4 per cent. This compared with 3.3 per cent in the previous quarter, and is the lowest rate since March 1994.

Both figures are now within the 2-3 per cent range for inflation targeted by the Reserve Bank of Australia. Business groups, concerned over flagging economic growth, especially in sectors like retailing and manufacturing, immediately called for a further cut in interest rates.

"Interest rates should come down as soon as possible to prevent further harm to the Australian economy and to assist in the restoration of business and consumer confidence," said Mr Mark Paterson, chief executive of the Australian Chamber of Commerce and Industry.

The Australian central bank last lowered the official "cash" rate, from 7.5 per cent to 7 per cent, in late-July. This was the first downward adjustment it had made since raising rates several times in the second half of 1994.

But hopes of a further easing before Christmas suffered a setback last week when the bank expressed continuing concern over the level of wage and remuneration increases being negotiated.

Yesterday, Mr Peter Costello, federal treasurer, echoed those worries.

"Continuing low inflation will reduce pressure on interest rates... However, crucial to the realisation of these benefits will be that future wage outcomes are consistent with low inflation," he said.

Malaysian rail finance agreed

By James Kynge in Kuala Lumpur

A subsidiary of Renong, a diversified Malaysian conglomerate, signed an agreement yesterday for M$2bn (US$800m) in Islamic and conventional financing to build a light rail system around Kuala Lumpur.

It is one of the first infrastructure projects in Malaysia to employ Islamic financing principles, which prohibit interest charges.

Projek Usahasama Transit Ringan Automatik (Putra), a wholly owned Renong subsidiary, is developing the project to construct 29km of railway at an estimated cost of M$4.35bn. The railway is due to be completed by June 1999.

A significant portion of the capital raised from the financing deal will pay foreign contractors and equipment suppliers.

Of the M$2bn package, half is in a conventional tranche arranged by Bank Bumiputra for a period of 15 years, including a five-year grace period.

The other half has been arranged according to Islamic principles by local banks Commerce International Merchant Bankers, Commerce MGI and Bank Islam Malaysia.

The financiers are to buy the original contracts to supply goods and services from suppliers, and then sell them to Putra at a fixed profit mark-up. Executives involved in the financing said that, after construction had been completed, a variable leasing mechanism would be employed.

NEWS: INTERNATIONAL

Chirac renews plea on Mideast role

By Judy Dempsey in Jerusalem and Alexandra Capelle in London

Mr Jacques Chirac, the French president, yesterday renewed his plea for the European Union to a play greater political role in the Middle East peace talks, saying it should match its economic commitment in the region.

Speaking to the Palestinian legislature in the West Bank town of Ramallah – the first time a foreign head of state has addressed the assembly – Mr Chirac said the EU could become a co-sponsor of the peace talks.

The US had played an essential role in the peace talks "and we can never thank them enough," said Mr Chirac. However, he added, the peace process was running "out of steam" and there was a certain deterioration in confidence between the sides. The EU and France could "build confidence".

However, Mr Dick Spring, the foreign minister of Ireland which currently holds the EU presidency, yesterday ruled out any direct EU involvement in the peace talks, signalling clear differences within the EU about its political role in the region.

"We do not consider it wise to have another negotiator," Mr Spring told a news conference at the European Parliament in Strasbourg.

"They [the peace talks] are at a delicate phase," he added. The EU will discuss plans to send an envoy to the region at a meeting in Luxembourg next Monday.

Mr Malcolm Rifkind, the UK foreign secretary, who will be visiting the region at the end of next week, yesterday warned that competition for influence between the US and Europe would be of little benefit to any of the parties involved. Mediators should be careful not to be played off against each other by the different parties.

He welcomed the French contribution to the peace efforts, but emphasised that only by a single international effort could anything constructive be achieved.

"We don't indulge in megaphone diplomacy," he said in reference to Mr Chirac's visit. "Our role is less colourful, less dramatic, less romantic than others."

Mr Rifkind has made plain that that he will bring a message of strong concern over the stalling of the peace process, and in particular about "the lack of movement by the Israeli government."

He said he attached great importance to his visit to Gaza and would consider "making representations" to Israel about the severe economic and social consequences of its restrictions on the movement of Gaza residents.

Palestinian officials and Arab states are enthusiastic about the EU playing a greater role, believing it would act as a counterweight to the US which is seen as partial to Israeli interests.

The US would not comment yesterday on Mr Chirac's speech, but said Mr Dennis Ross, the US Middle East co-ordinator, was making "significant progress" in peace talks between Israeli and Palestinian negotiators.

But Israeli and Palestinian negotiators acknowledge the intense hatred and tension in Hebron where the 415 Jewish settlers living in the centre of the city earlier this week threatened to use automatic weapons against Palestinians if Israeli troops were redeployed, while Palestinian officials want the settlers to have their movements restricted, fearing any clash could completely unravel the peace process.

Netanyahu faces $40bn pensions poser

Generous retirement benefits present a hurdle to cutting Israel's budget deficit

If Mr Dan Meridor, the Israeli finance minister, had his way, he would seek much deeper cuts in the 1997 budget which he will present to the Knesset next week.

Instead of planning a Shk4.9bn ($1.5bn) reduction in government expenditure in an attempt to contain a deficit nearing 4 per cent of gross domestic product, he would like to cut much further, reducing the deficit to 2.8 per cent of GDP.

But Mr Meridor and Mr David Brodet, director general at the finance ministry, would also relish reform of Israel's pension scheme, considered one of the largest burdens on public expenditure.

"Such a reform is long overdue. But it is doubtful it would gain any political support," said Mr Gad Haker, analyst at Batucha securities. "There are too many vested interests at stake." Those interests include Histadrut, the 700,000-strong socialist-inclined trade union organisation, and the public sector.

Since Histadrut was founded in the 1950s, its members have enjoyed high pension benefits. On retirement, they are granted either 70 per cent of their last year's working salary, regardless of contributions made over the years, or a large percentage of the national average salary. Moreover, members are dissuaded from joining the Histadrut pension scheme in the early stages of employment, a trend which analysts believe inhibits savings and fuels consumption.

"There are no benefits to be gained from entering the scheme in the early years of employment," said Mr Yishai Ashlag, an analyst at the Institute for Advanced Strategic and Political Studies in Jerusalem. "The contributions avoided in one's early years are larger than the value of the entitlements lost; late-joining members pay less for the entitlements they obtain," he added.

Until now, Histadrut has been able to cover this deficit with some of the pension contributions. But more importantly, that deficit has been paid by the taxpayer through a long-standing agreement between the union and the government whereby Histadrut's pension funds are invested in designated, or non-tradeable, government bonds yielding close to 5 per cent – way above the current market rates of about 3 per cent.

"This subsidy cushions Histradrut. If you take away those non-risk, non-tradeable bonds the union has an annual deficit of at least Shk1bn which will increase to Shk3bn," said Mr Ashlag.

In a recent report by Mr Brodet, the finance ministry proposed reforming this subsidy by shifting 30 per cent of the pension funds away from subsidised government bonds to the capital markets. This could open up the capital markets to pension funds, particularly if the subsidised bonds were phased out. It could serve also as a catalyst for a thorough reform of the pension system.

But Mr Ashlag believes the unions would oppose any reforms. "They do not want risk, transparency, or a loss of their privileges," he said. Indeed, this week, Mr Amir Peretz, chairman of Histadrut, told the Knesset finance committee he would block any changes, warning the government "it could encounter problems". Last July, Mr Peretz brought out his members on to the streets in protest against economic reforms being considered by Mr Benjamin Netanyahu, the prime minister and head of the conservative Likud-led coalition government.

The finance ministry can expect just as much resistance from the public sector. Under the present system, the public sector does not contribute to a pension fund on the grounds that it employees are paid less than the private sector. The result is that the government pays out pension contributions – often similar to Histadrut's benefits – totalling 10 per cent of GDP. GDP is currently $94.5bn.

Mr Zev Golan, associate director of the Institute for Advanced Strategic and Political Studies, believes the pensions deficit will rise to $40bn over the next 10 and 20 years.

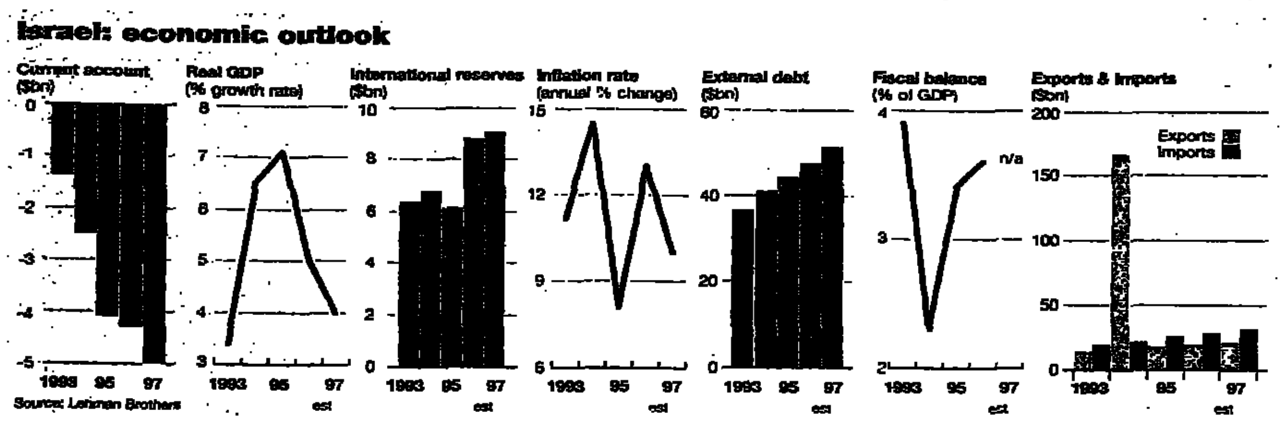
Under pressure from the finance ministry, the Likud government is being urged to reduce pension entitlements by raising women's retirement age, reducing members' entitlements and establishing pension plans for new members which would guarantee no more than the average salary. None of these recommendations has been welcomed by either the unions or the government.

"We are still living in a socialist climate where the state and not the individual is supposed to take responsibility," said Mr Golan.

"I am not so sure Likud will make a clean break with the past despite its commitment to reform. Bureaucracy and inertia is blocking radical change. Future generations and governments will have to pick up the bill. Passing on such problems is a definition of irresponsible government."

Judy Dempsey

Israel: economic outlook



Source: Lehman Brothers

Zairean clashes fuel fear of war

By Michela Wrong in Nairobi

The possibility of an ethnic war in Africa's Great Lakes region, pitting Hutus from Rwanda, Burundi and Zaire against Tutsis from those three countries was yesterday beginning to look increasingly plausible as fighting raged in east Zaire.

As 30,000 refugees from a camp near the Zaire frontier town of Bukavu joined the estimated 250,000 Hutus already fleeing fighting further south between the Zairean army and members of the Banyamulenge Tutsi community, Kinshasa accused neighbouring Rwanda and Burundi of playing a significant role in the conflict.

A government spokesman told journalists after an emergency cabinet meeting in Kinshasa that 1,700 soldiers from the two countries' Tutsi-dominated armies had attacked in the south Kivu region, while Rwandan soldiers had also staged strikes in north Kivu, only to be repulsed by the army.

The infiltration claims, which echoed what some aid workers had reported, were dismissed by the Rwandan government, which said it wanted "good neighbourly relations" with Zaire and had no plans to go to war with other countries.

The condition of Zairean President Mobutu Sese Seko, convalescing from prostate surgery in Switzerland, is acting as a catalyst.

The president yesterday sent a message home saying the protection of national unity would be the government's priority. But his prolonged absence has created a power vacuum many in the Great Lakes region are exploiting.

Aid workers warned yesterday of a humanitarian crisis, saying supply routes had been cut and there were only enough rations in Bukavu, which expects to take the brunt of the exodus, to last another three days.

UN plan to boost African growth

By Antony Goldman in London

Stung by persistent criticism over its performance during the past two decades, the United Nations Industrial Development Organisation (Unido) yesterday launched a multi-agency initiative which will constitute "a radical new approach to resolving the continent's poor record of industrial growth".

At a ceremony in Abidjan, Ivory Coast, businessmen, ministers and a handful of heads of states heard plans for the establishment of a new, African-led, partnership to include international agencies, donors and the private sector. Its purpose is to transform the process of industrialisation on the continent.

Advocates of the Alliance for Africa's Industrialisation argue that only by developing vibrant, urban industrial economies will Africa stem its increasing marginalisation from the international economy and address endemic poverty.

"We are conscious of the tremendous effort required... to overcome the obstacles in our path," said Mr Henri Konan Bedié, president of the Ivory Coast.

The 50 countries of sub-Saharan Africa's share of global manufactured output amounted to just 0.3 per cent last year, down from 0.8 per cent in 1975. There has been a similar decline in foreign investment.

Under the new alliance, projects will not be imposed externally, but fully owned and implemented by African countries.

Separate agencies are now committing themselves to work together under a single umbrella, combining resources on compatible strategies.

South Africa, the continent's only significant industrial power, stayed away from the Abidjan ceremony.

Popular businessman killed in air crash

By Patrick Harverson and Jim Kelly

Insurance, broking and soccer circles yesterday mourned Mr Matthew Harding, the millionaire businessman and vice chairman of Chelsea Football Club, who died with four other men in a helicopter crash in Cheshire, north-west England.

Mr Harding, aged 42, was returning from watching a soccer match between Chelsea and Bolton Wanderers on Tuesday night when the helicopter he was travelling in crashed into woods and exploded. The pilot and three business associates died with Mr Harding. Investigators were unable to say what caused the crash, but weather conditions were reported to have been poor because of thick fog.

Mr Harding, a reinsurance broker, was vice chairman and co-owner of Chelsea, the west London, premier league soccer club he had supported since childhood.

Last month it was revealed he had given the opposition Labour party £1m. ($1.56m).

He had been chairman of the Benfield Group since 1988 when he led a management buy-out of the small reinsurance broker. By the mid-1990s he had built the business into one of the industry's most profitable companies and accumulated a personal fortune estimated at £170m, making him one of Britain's richest men.

He was known as an innovator in the sector, where he introduced modern communication systems to broking and attacked many of the traditional business practices of the London market.

Mr David Rowland, chairman of Lloyd's said: "Matthew Harding epitomised the entrepreneurial vigour typical of Lloyd's and the London insurance market."

Shares in Chelsea Village, the football club's parent company, fell 4p to 85¼p on concern that the death of the club's largest individual shareholder – he owned 25 per cent of the shares and the freehold to the football stadium – would slow redevelopment of the club and a neighbouring hotel, leisure and business complex.

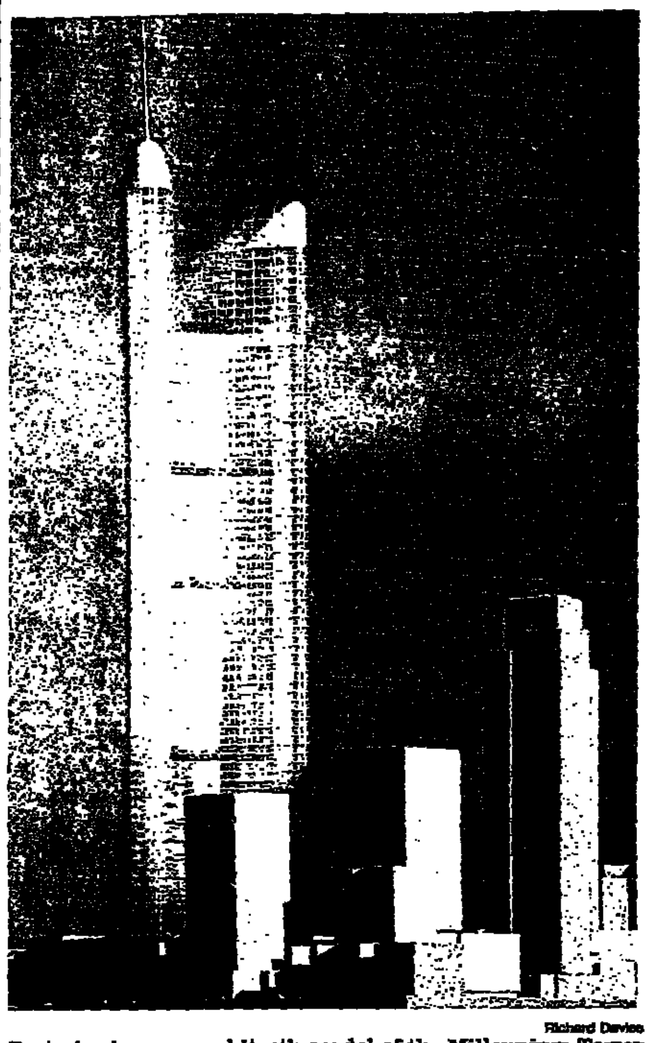
However, Mr Ken Bates, chairman of Chelsea Village, said Mr Harding's financial commitment to the company had been secured before his death.

Mr Harding's death was also mourned by Britain's most senior politicians. To Mr John Major, the prime minister, he was a fellow Chelsea supporter and a permanent fixture in the executive suite.

The Eurocopter Twin Squirrel in which Mr Matthew Harding and four associates were killed was said by aviation experts yesterday to have established a good safety record, John Griffiths writes. Produced in France under a joint venture between Aerospatiale and Bolkow of Germany, Eurocopters have been flying for 15 years, with their users including British police forces.

The Squirrel's good safety record was underlined only this month with the announcement that 38 of the aircraft – albeit single-engined versions – are to be purchased for use under a £400m ($624.00m) Ministry of Defence contract.

Tower of paper stacks up for approval



Richard Davies

Foster's view: an architect's model of the Millennium Tower

Plans for Europe's tallest skyscraper submitted

As befits a proposal to build Europe's tallest skyscraper, the planning application for the Millennium Tower in the City of London is one of the largest ever submitted in terms of sheer bulk.

A lorry-load of paper, including 8,000 drawings, was yesterday delivered to the Guildhall headquarters of the Corporation of London, the City's local authority.

Corporation officials will spend at least a month sorting through these documents before public consultation on the proposed tower can begin in earnest.

Kvaerner, the Norwegian company behind the proposal, will also stage a public exhibition.

The central planning issue is whether the City is prepared to give the green light to a building that would have a profound impact on the London skyline.

The proposed 379.5m tower – designed by Sir Norman Foster – is more than twice the height of the NatWest Tower, currently the tallest City building.

Although the site does not encroach on protected views of St Paul's Cathedral, Kvaerner has prepared dozens of photo-montages showing views of the City skyline from vantage points.

"Most initial reactions to the design have been favourable. The question is whether London wants a stunning skyscraper," said Mr Alan Winter, managing director of Trafalgar House Properties, the Kvaerner subsidiary behind the proposal.

The planning application also covers technical issues such as the impact of the proposed structure on wind patterns in the neighbourhood and possible interference with telecommunications and air traffic.

The first generation of City skyscrapers – such as Britannic Tower, the former headquarters of British Petroleum – created unforseen turbulence at ground level. A scale model of the proposed Millennium Tower has been shipped to Toronto, Canada for testing in an advanced wind tunnel. Kvaerner said the results were encouraging.

The City planners will also consider the building's shadow, its public access and servicing.

These issues will be explored in detail before the application is considered next year by the Corporation's planning committee.

Kvaerner also requires consent from English Heritage, the government agency, to build on the site of the Baltic Exchange, a listed building that was badly damaged three years ago by an IRA bomb.

The company argues that about 70 per cent of the exchange was destroyed by the blast and that rebuilding would amount to creating a replica.

Mr John Gummer, the environment secretary, also has powers to review Kvaerner's plans as an issue of national importance.

The minister could call for a public inquiry. Alternatively, he could allow the City planners to consider the application on the understanding that he would review their decision.

Mr Gummer's attitude to the Millennium Tower proposal is difficult to predict. His architectural advisers are known to be sceptical about the merits of very large buildings. The minister will have to decide whether the quality of Sir Norman Forster's design justifies taking a risk.

Simon London

Retail sales fall back as prices increase

By Robert Chote, Economics Editor

Trade in Britain's shops fell back slightly last month, indicating that retailers may be finding it difficult to make price increases stick.

After adjusting for normal seasonal patterns, the volume of retail sales fell by 0.3 per cent in September, the Office for National Statistics said yesterday. This reversed a third of the unexpectedly big rise recorded in the previous month.

The most conspicuous area of weakness was footwear. The cash value of footwear sales in September was 12 per cent down on the previous month and 11 per cent down on September 1995.

The volume of clothing and footwear sales in total fell by a seasonally adjusted 3 per cent between August and September. Prices in this sector rose by 5.2 per cent in the same period, the biggest monthly rise in almost 50 years.

"The evidence suggests that retailers are struggling to make price increases stick," said Mr John O'Sullivan at NatWest markets. "This ties in with data from the GfK confidence survey earlier this week, which showed that consumers saw a greater advantage in postponing major purchases."

The underlying trend in retail sales nonetheless remains upward. Sales volume in the third quarter was 0.8 per cent up on the second quarter. This followed an increase of 1.4 per cent in the second quarter and 0.4 per cent in the first.

September's figure was slightly weaker than City of London economists had expected, but most expect momentum in town centres to be re-established quickly as demand intensifies in the run-up to Christmas. The data had little impact on interest rate expectations, with attention focused on Friday's third quarter economic growth figures.

Within the consumer sector, non-food retailers continue to perform best. Household goods sales were 7.3 per cent up on a year ago in the third quarter, with clothing and footwear up 6.9 per cent over the same period. Department store sales are growing at a little under 5 per cent a year, but food store sales have risen by less than 1 per cent.

The early indicators of sales this month are mixed but the amount of cash circulating around the economy is growing less quickly than in recent months when sales have been strong.

"With buoyant trends in house prices and housing turnover, we suspect that the trend in consumer spending will remain pretty strong," said Mr Michael Saunders, economist at Salomon Brothers. "As seen in recent business surveys, this is now feeding through more widely to a general pick-up in growth that is likely to push GDP growth above trend in the fourth quarter."

Company report changes urged

By Jim Kelly, Accountancy Correspondent

A conference called in London today to debate the future of financial reporting will hear one of the country's leading auditors claim that the prime users of company accounts are directors – not shareholders or other stakeholders.

A shift in accounting towards the needs of directors would focus attention on setting broad accounting guidelines which are of practical use to them.

The intervention of Mr Roger Davis, of accountancy firm Coopers & Lybrand, will be seen as an attempt to win back influence for finance directors at a time when rapid developments are taking place in global harmonisation of accounting standards.

Mr Davis's speech, delivered to finance directors and leading standard-setters, is also designed to try to counterbalance the strong influence of prescriptive US-style accounting standards in the harmonisation process.

"The question is whether in the UK we are going to lie down and let the US Securities and Exchange Commission set the rules," he said.

Mr Davis believes the interpretation of accounting standards should be by judgment not code.

The standard-setters are likely to point out that corporate failures in the late 1980s and early 1990s, which left shareholders facing big losses, were not a good advert for the judgment of auditors and that rules were needed.

Mr Davis's intervention also comes at a time when the world's standard-setters are dealing with disagreements over deferred tax, derivatives and goodwill.

To back up his argument he will publish a suggested code of 20 principles to guide auditors. For example, one states that "a wrong in the accounts cannot be put right in the notes to the accounts", or that accounting policies should "not constrain sound commercial decisions".

While Mr Davis will stress that he supports harmonisation and the work of the standard-setters, he hopes his code will provide a practical "day-to-day" guide.

Mr Davis will also defend the auditing profession against charges that the failures of the past could potentially re-emerge in a recession.

Last-minute measures against paedophiles and stalkers added to traditional Queen's Speech

Government's legislative course set out

By Robert Peston, Political Editor

Mr John Major, the prime minister, set the legislative agenda for the run-up to the election yesterday with this year's Queen's Speech. The 18-bill speech was aimed at offering "opportunity for all" and highlighted political differences between the two main parties.

The package of measures contained no real surprises, with education, tackling crime, primary health care reform, and welfare reform at the heart of the programme, as expected.

But after the Queen's formal reading of the speech yesterday morning Mr Major made last-minute changes to include measures cracking down on stalkers and paedophiles in the face of intense pressure from the opposition Labour and Liberal Democrat parties.

In an increasingly heated battle between the three main parties for the moral high ground, Mr John Major, the prime minister, took the unusual step of announcing the new bills in a parliamentary debate after the Queen had already spelled out the government's programme.

The main elements in the government's final legislative package before the general election, which the government has pencilled in for May 1 next year, are a tough new sentencing policy, the introduction of greater selection into schools' admissions policy and a widening of the services offered by general practitioners. However the launch of what is effectively the last phase in the government's pre-election campaign was marred by the charge, led by Mr Paddy Ashdown, the Liberal Democrat leader, that the prime minister's belated adoption of the paedophile and stalking measures represented the "fastest U-turn in political history".

There were also fierce battles on the economy and appropriate measures for the Budget. Mr Major cautioned against the expectation of significant income tax cuts in stronger terms than he has used previously. "If we cannot [cut taxes], we will not", he said, pointing to the need to ensure any Budget measures were "prudent".

Mr Tony Blair, the Labour leader, said the prime minister's only hope in the election was "a massive collective attack of national amnesia" so that the electorate forgot "22 tax rises".

At the heart of the new legislative programme announced by the Queen in the morning were five law and order measures, including a reduction in judges' discretion in sentencing, the creation of a national police squad and a crackdown on benefit fraud.

However it excluded proposals to introduce new penalties for stalkers and set up a national register of paedophiles, which had the support of all major parties, them.

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Security of personal tax details queried

By Jim Kelly, Accountancy Correspondent

The opposition Labour party has asked the Inland Revenue to outline how it plans to safeguard the security of personal tax details sent out of the UK to computer software experts in the US and Australia.

Mr Michael Jack, the financial secretary to the Treasury, announced last week that in exceptional circumstances tax data would leave the UK and could be accessed by staff working on systems faults for Oracle, the US-based software company.

The announcement formed part of preparations for the new self-assessment tax regime for 8.5m taxpayers which comes fully on stream in April next year. Mr Jack said Oracle could only guarantee a 24-hour back-up service if access was given to its overseas' sites.

Mr Jack's statement followed earlier undertakings during the privatisation of the Revenue's information technology services that no tax forms would be processed outside the UK.

"We are very concerned that access will be outside the UK – there is obviously a problem of security," said Ms Dawn Primarolo, a member of Labour's Treasury team.

The magazine Computer Weekly will today claim that it has obtained a Whitehall memo which shows that officials considered drafting a parliamentary paper which pointed out that the Oracle decision changed "security policy and procedures" at the Revenue.

"How can UK law provide protection when access is outside the UK jurisdiction?" asked Ms Primarolo. "Why wasn't parliament made fully aware that this was a possibility? The memo says there is a security problem here and the minister was given two different versions – one appeared. I'd like to know what the other one was."

Labour is concerned about the extent to which the Official Secrets Act would be bypassed by allowing access to Oracle's network of technical experts.

The Inland Revenue maintains that it would be "highly unlikely" that anyone outside the UK could download a taxpayer's personal details. It described Mr Jack's statement as "entirely accurate".

European arms regrouping urged

By Bruce Clark, Diplomatic Correspondent

Europe's defence industry should regroup to make multinational arms manufacturing projects more efficient, Mr Michael Portillo, the UK defence secretary, said yesterday.

In a speech to the Royal Institute of International Relations in Brussels, he also urged Nato to maintain its capacity to fight high-intensity wars, and collaborate in producing a ballistic missile defence system.

Mr Portillo, who in September committed Britain to participating in the £40bn ($62.40bn) Eurofighter project, said cross-border defence industry collaboration in Europe had been dogged by "fragmentation, overmanning, short production runs and national protectionism".

"Organisationally we must do better than we have done on Eurofighter, where delays are endangering that excellent aircraft's competitiveness and export prospects," he added, in an apparent reference to doubts over Germany's willingness to fund the latest phase. Collaboration projects "require proper commercial structures and firm management grip," Mr Portillo warned.

Referring to the broader challenges facing Nato, he said there was an increasing threat to peace from the proliferation of ballistic missiles and weapons of mass destruction. Some 20 countries outside Nato possessed ballistic missiles.

More than a dozen states possessed or were close to possessing the capacity to deploy chemical or biological weapons that could threaten Nato.

While ballistic missile defences were "not the answer to all problems", Mr Portillo said, "we need it and we need to develop it jointly within Nato, with Europeans and Americans deciding together how best to respond to threats to our share of security interests".

● General Sir Roger Wheeler, who commanded British forces in Northern Ireland until recently, was named yesterday as head of the army's general staff, succeeding Sir Charles Guthrie who has been promoted to Chief of the Defence Staff.

About 2,000 farmers yesterday held a rally in London and presented joints of British beef to European Union embassies and the prime minister's office in a protest over the impact of the beef crisis. Sir David Naish, president of the National Farmers Union of England and Wales, said farm businesses were being crippled by government mistakes. Hill farmers were particularly highlighting their concerns in the run-up to a review of a government compensation scheme.

Fines highlight slow progress of pension probe

Big fines imposed on four financial advisers suggest that regulators are starting to get tough over the mis-selling of personal pensions.

But the punishments imposed last week do little to help the thousands of investors still waiting for compensation more than two years after a review into the scandal was launched by the regulatory Securities and Investment Board.

They merely highlight the extent to which assessments have been delayed. Most priority cases were supposed to be settled by the end of this year. But the deadline will not be met.

"We predict that most projects will complete the review after 1997 and some will be completing in 2000 unless some additional action is taken," said accountants Deloitte & Touche after a survey.

One reason for the delay is the scale and complexity of the exercise. Up to 1m pensions sold between 1988 and 1994 have had to be vetted – mainly those where people were wrongly advised to leave occupational schemes and take up personal plans, or opt for a personal plan rather than join an occupational scheme.

The review was triggered by increasing consumer and industry concern and by standard checks by regulators. Those involved in the process include regulators, life companies, banks, independent financial advisers, occupational pension schemes and trade unions.

Early problems included setting up software and resolving difficulties over insurance cover. Financial advisers found at one point that they would breach their professional indemnity cover if they carried out the inquiries demanded by the review. There was also resistance among some life companies which resented the suggestion they had done anything wrong.

More recently, there have been delays in obtaining information from individuals and the occupational schemes they left. Securing responses from occupational schemes has been particularly difficult because the regulators – such as SIB and the Personal Investments Authority – have no sanction over them. The fact that some financial advisers have gone out of business or the people who ran them have moved on has also caused problems.

The Prudential, with about 10 per cent of the UK pensions market, initially despatched 663,000 questionnaires but has seen its total mail-shot total 1.5m after sending out up to two reminders. With 180 people working full-time on the problem, it says review implementation costs alone will reach £20m ($31.9m).

Apart from procedural difficulties, there has been foot-dragging. Some of this is by companies which feel they do not have any problem cases, those who hope the whole affair will blow over before they are compelled to act, or simply small firms lacking adequate resources. Some financial advisers hardly have an incentive to co-operate, knowing their endeavours may end up putting them out of business.

Individuals are most likely to be compensated by being reinstated in their occupational schemes or having their personal plans topped up. This will produce more argument as occupational schemes and those compensating fight over the cost of reinstatement. Eventual fines and compensation could cost the industry up to £4bn ($6.3bn).

The biggest headache is facing the PIA, the frontline regulator monitoring more than 3,000 firms. It is understood to have assessed only 15,000 of 563,000 identified mis-selling cases. A total of 3,000 people have been compensated to the tune of £27m ($43.1m), or an average of £9,000 ($14,300). Both the SIB and the PIA accept the review is taking too long. They are trying to overcome the blockages caused by the occupational schemes, while rewarding firms which act promptly and doing more to punish the slow-movers. They hope that 1997 will be the year the industry gets on top of mis-selling.

Christopher Brown-Humes

Computer game swaps violence for family values

By Peggy Hollinger in London

Computer games makers are jumping on the moral bandwagon with the launch of a new programme in which players learn about so-called "family values" by teaching them to alien lifeforms.

Hatched from eggs, the creatures live, learn and breed on the home computer, learning from each other as well as from the players. A digital version of DNA stranding pioneered by a team of Cambridge scientists ensures that each creature is a unique individual, complete with its own likes and dislikes, and varying degrees of intelligence. Human minders must care for the critters like parents, teaching them social skills such as right from wrong, and how to survive in their cyberworld.

Warner Interactive, the computer games publisher owned by Warner Media Group of the US, claims its *Creatures* game package breaks the mould of violent computer games which have dominated the market. "It's a bring 'em up, not a beat 'em up," the company says.

The programme will be launched worldwide on November 11.

Warner claims the game will teach social skills to both children and adult players. The better you treat the creature, the longer it lives.

Parts of the programme are frighteningly realistic, as the creatures are capable of adapting and learning in a manner similar to humans. For example, they develop prejudices. In one case, an unusually coloured creature was shunned by its nest mates. They had to be taught that colour was nothing to be frightened of. Such prejudices have not been introduced by the programmers. Instead, this is the result of the artificial intelligence programme developed by the UK company, Millennium Interactive.

Trials have also shown that the critters can learn anti-social skills from their carers, as easily as good ones. A creature who was continuously slapped by his young human carer became a cyber bully. Teen critters have also been known to break into the drinks cabinet, with disastrous results.

UK NEWS DIGEST

Airport charge cut expected

The Civil Aviation Authority is today expected to tell BAA, the airports operator, to cut landing and take-off charges at London's Heathrow and Gatwick airports by up to £100m ($156.00m) over the next five years.

The UK regulator for the airline industry, which has been considering proposals from the Monopolies and Mergers Commission since July, is expected to restrict price rises at Heathrow and Gatwick to no more than three percentage points below inflation between 1997 and 2002.

However, it is thought CAA will permit BAA to raise its charges at Stansted, the smallest of its London airports, by one percentage point above the retail prices index, which measures inflation.

This is the second time the CAA has imposed price controls on BAA. Every five years the MMC mounts an inquiry into charges at airports and submits its recommendations to the CAA.

In July the CAA said it accepted the key recommendations of the MMC report. Neither CAA nor BAA would comment yesterday, but analysts said they would be surprised if CAA deviated from the MMC proposals. "We do not except the CAA to come up with something different," said one analyst. *Motoko Rich*

■ PACKAGING INDUSTRY

EU competitiveness 'threatened'

The UK packaging industry yesterday warned MPs that new packaging recycling regulations could hit both jobs and its competitiveness within Europe.

The Packaging Federation, whose members account for more than half the £9bn ($14.04bn) industry, said it wanted a commitment from MPs to review the UK regulations in 18 months if they proved too costly.

The regulations are inspired by a European Union directive requiring industry to recover half its packaging waste by the year 2001. But the UK system is different from its European counterparts' in that it aims to share the costs of the rules evenly among the various parts of the packaging chain. But unlike, for example, the Dutch packaging industry, the UK packaging sector will not be able to pass on the costs of recycling to its customers.

Mr James Jensen, chief executive of the Packaging Federation, said that the government estimated that the scheme would cost his industry some £94m a year, including £11m in administrative costs, compared with annual profits of around £500m. *Leyla Boulton*

■ VEHICLE COMPONENTS

Air conditioning producer expands

Denso Manufacturing, the car air conditioning and heater producer, yesterday announced a £31m ($48.36m) investment to fund the substantial expansion of its existing plant in the midland English town of Telford.

The company – a joint venture between Denso Corporation of Japan and Magneti Marelli of Italy – plans to increase its workforce from 700 to more than 1,000 to supply the growing market in car air conditioning.

Denso is to begin work on the expansion in January. The company, which moved to Telford in 1992, says it needs to expand to meet increasing demand from current customers and introduce new products.

Denso Manufacturing already supplies UK customers including Rover, Jaguar and Toyota as well as mainland continental producers such as Fiat, Audi and Mitsubishi. *Richard Wolffe*

■ GAS PRODUCTION

Shell North Sea field approved

Shell UK Exploration and Production said yesterday it had secured government approval for its £220m ($343.20m) development of the Kingfisher gas field in the North Sea.

Kingfisher is a satellite field in the central North Sea and production will go by pipeline for processing and export through the Brae field, operated by Marathon.

Shell said that Kingfisher production was the result of co-operation among North Sea producers as it and its partners had no infrastructure in the area.

The field is expected to come on stream towards the end of next year and to last nine years. *Simon Holberton*

■ NATIONAL LOTTERY

Midweek draw aims to boost sales

Camelot, the operator of the National Lottery, was yesterday given permission to launch a midweek draw to give a fresh boost to sales. Mr Peter Davis, the lottery regulator, announced that an on-line midweek draw – almost certainly televised – could go ahead early next year. Sales of lottery tickets for Camelot's flagship Saturday-night draw have reached a plateau, with weekly revenues averaging £70m ($109.20m).

When sleep is in order

Sleep disorders inflict misery on millions of people and can potentially increase the risk of high blood pressure, heart failure and stroke. But if correctly diagnosed, most can be successfully treated.

A pioneering technique developed by a team of Oxford scientists holds out the promise of improved diagnostic techniques.

Sleep is traditionally analysed by classifying brainwaves every 30 seconds into one of six categories from wakefulness to deep sleep. But the time intervals are too long to detect the brief episodes of wakefulness that are involved in some disorders.

The Oxford system analyses brainwave patterns using a neural network, a computer that can recognise complex patterns. The network is trained to recognise three patterns corresponding to wakefulness, dreaming/light sleep and deep sleep. Advantages are its subtlety, ability to analyse every second of brain activity and a requirement to attach fewer head electrodes than conventional techniques.

"It is leading to a better understanding of what is going on which will hopefully lead to a better understanding of a number of sleep disorders," says Mark Laister, product manager for Oxford Instruments.

The system, called Questar, was jointly developed by Oxford University's Engineering Science department, Oxford Instruments and the Churchill Hospital in Oxford, with government funding.

Work is continuing at Oxford University on adapting the technique to monitor the depth of anaesthesia during an operation, preventing occasional, but appalling cases in which patients are aware of pain during surgery.

Vanessa Houlder

Goods to kill for

Jenny Luesby on a breakthrough in anti-bacterial products

Germ-killing carpets, pillows that banish dust mites and socks that cure athlete's foot are just some of a new generation of products being launched with built-in and permanent pharmaceutical properties.

It has long been possible to coat fabrics with chemicals that kill bacteria: the Germans did it during the first world war, by treating soldiers' uniforms with disinfectant to reduce wound infections in the trenches.

But anti-bacterial coatings have found a limited market. They do not last for long. Wear and tear diminishes them, as does laundering. And to compensate, the chemicals need to be strong, carrying the risk of side effects, especially where there is skin contact.

The breakthrough in creating germ-killing consumer goods has come from Microban, a private US company founded by former pharmaceutical executives.

Microban has found a way of incorporating a chemical additive that kills both bacteria and fungi into clothing, furniture and flooring. The additive, itself called Microban, is self-replenishing and entirely innocuous. The active ingredient is triclosan, made by Ciba, which is also used in toothpaste. It is also the active element in creams that fight acne, and a long-time feature of the lotions used by doctors to clean up before and after surgical operations.

Triclosan kills a wide range of microbes, including the bacterias that cause extreme food poisoning, dysentry, cholera, pneumonia, tetanus, meningitis and tuberculosis. It also knocks out the causes of everyday stomach upsets, sore throats, and even body odour.

In addition, it kills the yeasts responsible for candida ulcers and athlete's foot, as well as moulds and mildew.

All of these are single-cell life forms, which tend to have weak cell walls. Triclosan penetrates the cell wall, so that the cell starts leaking essential nutrients. At the same time, it inhibits the enzymes necessary to create new energy and nutrients.

As a cell wall penetrant, it has no impact on humans. Multi-celled life forms have thicker cell walls, which triclosan cannot disrupt.

Glenn Cueman, Microban's chairman, says it took years to find a way of incorporating triclosan into synthetic materials.

Microban is now added during the extrusion of plastics and fibres. At this stage, the polymer is melted in vats and additives, including pigments and ingredients to enhance flexibility and strength, are included. This mixture is then squeezed out of nozzles to form fibres or plastic pellets.

During this meltdown, some of the additives bond chemically with the polymer; others, such as triclosan, are mechanically combined. Triclosan does not react with plastic around it but is left sitting in the gaps between the polymer chains.

The main challenge in treating triclosan as an extrusion additive lay in the high temperatures involved. The answer was a protective coating that stopped the chemical from deteriorating under heat, but left it able to react with bacteria.

With this in place, the next step was fixing the doses for different types of plastic, and different uses.

Each kind of synthetic material, from polypropylene to acetates, has a different molecular structure, and the differing patterns of empty spaces between the molecules.

As the final consumer good is used, the Microban at the surface will be removed through abrasion, often during washing. But if there is a sufficient concentration of the additives in the inner spaces between the moleculesit will automatically migrate to the less dense outer pockets, maintaining the product's anti-microbial efficacy.

Through trial and error, Microban calculated the amount of triclosan necessary to take a fibre such as acrylic through 50 wash cycles, or even 100, depending on its use.

The initial target was the medical market, and Microban was quickly utilised in the fabrics that cover surgical incisions, and medical instruments. The next wave of products included hospital bedding and institutional carpeting.

But in reaching these markets, Microban was working with chemical companies that had a far wider customer base. The result has been an unforeseen take-off in anti-microbial consumer goods.

One of the earliest launches was bedding, especially pillows, for people allergic to dust mites. Fragments of dead skin deposited in a warm, moist pillow are a breeding ground for bacteria, which dust mites than feed off. With the bacteria removed, the dust mites cannot survive.

Hoechst, one of the world's largest chemical companies, has recently adopted the additive as the selling point in a new range of anti-bacterial acrylic fibres. Socks made from the fibres have been shown to kill 99.95 per cent of the yeast that causes athlete's foot.

Similarly, the additive is being incorporated into the linings of shoes. It is also going into kitchen chopping boards, and the food trays in high chairs, where it has been shown to reduce food-borne bacteria by more than 99 per cent.

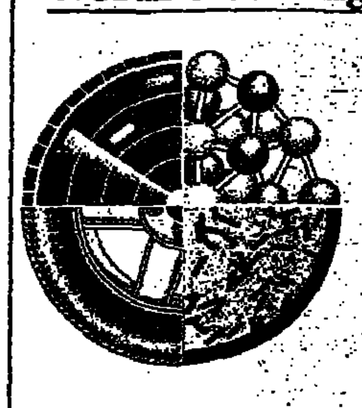
In the UK a conveyor belt producer is now looking at incorporating the additive into belts for food processors.

In the Pacific north-west, McDonald's is using the additive in its packaging, following an outbreak of ecoli food poisoning at a rival chain. Manufacturers are also developing the additive for reusable plastic food tubs and cling film wrap.

In Asia, the take-off has come in drapes, carpets and bedding, notoriously prone to mould and mildew in humid climates.

The flood of new applications has done amazing things for Microban too. The Microban additive is its only product. It has been doubling annual sales for some years. This year, sales will triple.

Worth Watching • Vanessa Houlder



How to ease the frustration factor

Downloading graphics from sites on the World Wide Web can be frustratingly slow. That may change shortly, with the introduction of Internet connections at nearly double the speed of those now available over standard telephone lines.

US Robotics, the modem manufacturer, has developed a service that increases the top speed on a standard model for downloading data from 28.8 Kbit/sec or 33.6 Kbit/sec to 56 Kbit/sec, equivalent to many ISDN connections.

User requests will be transmitted at conventional 28.8 or 33.6 Kbit/sec speeds. The product and upgrades for existing US Robotics modems will become available early next year.

US Robotics: UK, tel (0)1734 228200; fax (0)1734 695555.

Scientists bone up on new technique

The snag with the ceramic-coated titanium alloys used to make artificial joints is that they often wear out within a decade or two.

The search for longer-lasting alternatives has been joined by a team of Russian and UK scientists. They have developed a technique of coating plastic with hydroxyapatite, which forms the hard part of living bone.

The scientists from the LaserChem in Moscow and the University of Nottingham in the UK use a laser to blast the mineral on to the plastic to create a bone-like coating. The process works at room temperature, unlike the ceramics process that works at temperatures that would melt plastic.

The result is a lightweight, flexible material that is likely to wear out less quickly.

University of Nottingham: UK, tel (0)115 9515798; fax (0)115 9515733.

Big use for tiny specks of light

Photonic crystals influence the behaviour of light in much the same way as semiconductors affect electrons. If these tiny structures could be made on the scale of optical wavelengths, they could be used to make minute lasers for very compact optoelectronic devices.

Scientists at the Optoelectronics Research Group at the University of Glasgow have taken a step towards this goal by etching tiny holes in a semiconductor alloy. The result was a two-dimensional photonic crystal that operates at wavelengths between 800 nanometres and 900 nanometres. The structures could be integrated with other optical and optoelectronic devices, according to a report in today's Nature.

University of Glasgow: UK, tel (0)141 330 4869; fax (0)141 330 6002.

Cure for an attack of the vapours

Condensation is often the culprit behind damp problems in buildings. Although membranes are often used to stop water vapour produced inside the house from damaging the walls, they can cause problems by preventing the moisture already present in the walls from drying.

German scientists have designed a plastic membrane that adapts its permeability to changing conditions. In winter, the membrane is impermeable to the water vapour produced inside the house. In summer, its pores open to allow the building to dry out.

The Fraunhofer Institute for Building Physics, which has patented the membrane, believes that an additional benefit would be falling building costs, for example with a loft conversion, because the need for additional ventilation would be removed.

Fraunhofer Institute for Building Physics: Germany, tel 802464345; fax 802464366.

ARTS

Cinema/Nigel Andrews

Tragedy of mistaken identity

TWELFTH NIGHT
Trevor Nunn

WHEN THE CAT'S AWAY
Cédric Klapisch

NICO-ICON
Susanne Ofteringer

40TH LONDON FILM FESTIVAL

Where Shakespeare's *Twelfth Night* is a comedy of mistaken identity, Trevor Nunn's *Twelfth Night* is a tragedy of mistaken identity: the identity in question being the cinema's.

For Nunn, assembling a strong cast, finding a novelty period for them – Victorian-Ruritanian – and casting them loose in rural England (equals Illyria) must have seemed nine tenths of the battle. But in filming a stage play it is not even the start of battle.

The medium-galactic players – Imogen Stubbs as Viola, Helena Bonham Carter as Olivia, Mel Smith as Sir Toby, Nigel Hawthorne as Malvolio – prance their damnedest and speak the lines trippingly. In Hawthorne's case they even manage the odd searing, tearful moment. But movies are about movement: not just of the people or the camera, but of lighting, editing rhythm, imagery, conception. There should be a whole new alertness – as there is in the best Shakespeare films from Olivier's *Henry V* to Jarman's The *Tempest* – to the possibilities of supple visual metaphor.

Nunn never persuades us that a new world has been created for his characters in a new dimension. After a perfunctory shipboard prologue we are cast ashore in all senses. So stolid is the shot/reaction mise-en-scène, so pedestrian the slotting in of change-of-scene master shots (Cornwall's Llanhydrock and Prideau Place), that when any participant gives the proceedings a new inflection we cannot be sure if it is error or enterprise. Ben Kingsley's Feste, for example, is a singing clown who can neither sing nor clown. Bright idea or batty casting?

Stubbs and Bonham Carter project what duty radiance they can, and Smith and Richard E. Grant are serviceable as Shakespeare's blueprint for Laurel and Hardy. But the only real life-spark comes from Hawthorne. His Malvolio starts as TV's Sir Humphrey, grows into George III and ends as something magnificent and all its own. As he curses the company before collapsing blubbing on a stairway, this *Twelfth Night* becomes, almost, a film. Not through camera pyrotechnics, simply through one actor outstaring the audience, outsmarting the sense of proscenium and declaring the movie screen to be, for that instant, his, all his.

★

Cinema knows no pre-ordained cultural hierarchy. A French comedy by an unheard-of director can rise above a Shakespeare play. Cédric Klapisch's *When The Cat's Away* features a missing moggy, a prettily distrait heroine called Chloe (the feline-eyed Garance Clavel) and a corner of Paris that behaves like an Advent calendar. Every few minutes a new door or window opens to introduce a gay flatmate, a raggle-taggle drummer boyfriend, or the eccentric old cat-minder (Renée Le Calm) with gravel voice and henna-dunked hair, who loses "Gris-Gris" during the girl's brief seaside holiday.

The depiction of this holiday crystallises the film's insouciant wit. We have five seconds of Chloe wallowing in the blue briny, sandwiched between longer bag-humping sequences in Paris. To travel is more momentous than to arrive, says Klapisch. And like the best modern French films, from Rivette to Rohmer, this one is all travel – or rather all *arriving*, misconstrued as travel.

For the attempt to resolve a problem in one corner of life brings clarity and revelation everywhere else. Chloe finds out what is really missing in her existence: other people. Her receding self-absorption reveals a daffy infrastructure of neighbourliness, where old biddies who lose a girl's pet may be just as well-meaning as the dimwitted, infatuated Arab who helps look for it (Zinedine Soualem) or the sweetly melancholic artist friend (Joel Brisse), who in the patois of café comradeship is called "Bel Canto", presumably because he seldom opens his mouth. A plot about nothing becomes a plot about everything, in what may be the best Rohmer film Rohmer never directed.

Nico-Icon is the week's third film set in a kind of Bohemia, where accident and mishap conspire to knit together people's lives. The main difference in this German-produced documentary is that its subject, model and pop singer Nico, never became knitted to anyone, least of all herself.

She belonged, though, to that great woolly peer group, the Warhol factory, and she wrapped herself in all the trendy late-century movements from drugs and rock music to unwed motherhood. Ari, her son by Alain Delon, lives to this day, disowned by his father who also disowned his own (Alain's) mother when she took the boy into her home.

Nico's notion of caring and sharing was on much the same level. After introducing Ari to heroin, she visited him in hospital during a three-week coma and recorded the life-support machine for a backing track.

We never grow fond of this drop-dead blonde, who surrounded herself with her dropped-dead victims and came to resemble one herself. Friends were horrified at her pale, haunted, draggle-toothed physical decline in later years, an image she gleefully cultivated.

But director Susanne Ofteringer rounds up spellbinding witnesses, including Mama Delon, Warhol ex-diva Viva, Velvet Underground musician James Young and one Carlos De Maldonado-Bostok. This embottled gypsy of uncertain age steals every available scene, blurting *bons mots* through a beard and upper-crust British accent and dismissing Delon with unforgettable contempt: "You know his family sold ... *sausages* or something."

★

The 40th London Film Festival (November 7-24) approaches fast. Book now, for by mid-November it may be the only place to find intelligent movie life as the sky darkens with pre-Christmas flying objects from Hollywood.

Here are some title-by-title commendations. Todd Solonz's *Welcome To The Dollhouse* is an American first feature with a wonderful sting in its high school tale. Terry George's *Some Mother's Son* is a partial but powerful look at the Irish Troubles. Jacques Audiard's *Un Héros Très Discret*, a Cannes-praised French comedy, lampoons the country's nimble guilt-evasions after the Occupation. Otar Ioseliani's *Brigands* is a leisurely but lethal meditation on war through the ages. Fred Wiseman's 4-hour documentary *La Comédie Française* hacks at the coalface of a great culture institution. Jan Sverak's *Kolya* is a funny, touching Czech film about reluctant adoption. Steve Buscemi's *Trees Lounge* is a blithe street comedy from the *Reservoir Dogs* actor. Arturo Ripstein's *Deep Crimson* is a sardonic tale of love and murder down Mexico way.

These are only chosen from the films I have seen. Among the remaining 100 or so, the voyage of discovery is yours.

Prancing their damnedest: Helena Bonham Carter, Imogen Stubbs and Toby Stephens in 'Twelfth Night'

Concert

A sizzler from Dohnányi

This was a big night for The Philharmonia. After years of struggling against unequal odds, such as the perpetual insecurity of the London musical scene and the far lower funding than rival orchestras overseas, The Philharmonia has at last managed to secure for itself the principal conductor it wanted all along – Christoph von Dohnányi.

It has worked hard to get him. There is not much about a London posting that looks tempting to an international conductor these days, certainly not the usual pay or prospects (when every few years there will be talk about one of the orchestras closing down). So The Philharmonia wooed him with the best of its foreign dates – European tours, Salzburg and its residency at the Châtelet in Paris, a formidable line-up.

It must be well aware this appointment is not a soft option. Conductors of Dohnányi's stature do not come cheap; and he is a tough disciplinarian, who is guaranteed to make the players work hard. That, at least, should be a tangible investment: regular engagements with Dohnányi have already raised the orchestra's standard and Tuesday's concert, their first together in the new partnership, was a sizzler.

The main work was Tchaikovsky's Fifth symphony, not a typical Dohnányi favourite (his fondness for exploring the 20th-century repertoire should go down well at the South Bank Centre). A cool head and razor-sharp clarity make for an unusual sort of Tchaikovsky, but conductor and orchestra certainly sounded at one with it. Forget heart-on-sleeve romanticism. The high emotion of this performance came from hearing the symphonic argument thrashed out with such rigour and intensity, the sheer control of it seeming quite electric.

Maybe after a few years we will yearn for a conductor who is more open with his feelings, but the pleasure of hearing The Philharmonia play with this level of sharpness is unlikely to wear off. They opened the concert with a highly-disciplined performance of the Overture to Wagner's *Rienzi*, so often mere bombast. Then Garrick Ohlsson proved a well-matched soloist in a live-wire, and accurate, account of Bartók's Second Piano Concerto.

There are some big projects lined up for Dohnányi imminently: concert performances of Schoenberg's *Moses und Aron* next week and Stravinsky's *Oedipus Rex* in November, both prestigious events courtesy of the Châtelet residency across the Channel. The Philharmonia looks like an orchestra with quite a few feathers in its cap at the moment.

Richard Fairman

Sponsored by GKN.

Theatre/Alastair Macaulay

Artificial whirlpool of words

In the Company of Men, a play by Edward Bond now receiving its premiere production with the Royal Shakespeare Company, is by no means without merit. It has ten times more ideas than most true plays could ever contain; at least a hundred carefully polished *bons mots*; several dozen small patches of genuinely good writing; some very impressive performances; and a couple of good jokes. No doubt these virtues, and the stature that Bond has achieved over more than 30 years of writing plays, will win this play approbation in some quarters. But, from its first minute, the play starts to sink, and it takes its virtues down with it in its slow three-and-three-quarter-hour whirlpool.

Bond has a reputation as a radical of our theatre. What is dismaying about *In the Company of Men*, however, is the large degree to which Bond, like a bad old ham, is primarily interested in making artificial effects. When his characters vacillate or change their minds, for instance, it never rings true; but it is calculated, each time, for sheer theatrical impact. Likewise with the innumerable paradoxes which several characters express: flashy stuff, and silly. The play is drenched in blather. As in Metastasian opera, characters stand and deliver whole series of repetitious five-minute arias. At the end of most such arias, there usually follows a brief exchange of recitative between the first and second characters onstage. Then the first one delivers another aria of the same length. And so on.

In the Company of Men depicts an all-male power-struggle. A son, Leonard, tries to depose, and even kill, his father, Oldfield, a company director. Various rivals and henchmen plot against, and dupe, father and/or son and/or each other. But so what? And what if both father and son meet different deaths during Act Two? None of it is for a moment believable. Line by line, most of it is fine enough; but, as the lines turn into dialogue or (mainly) into speeches, the talk keeps turning away from the free pulse of true human feeling and into the booming contrivance of androids.

Bond himself directs, and all the performances are better than the text. Karl Johnson makes a remarkably fine impression as Oldfield, and David Ryall's characterful vigour and humour are immensely refreshing as Hammond, though their performances keep being diminished by what they have to say. John Light, as Leonard, does some of the best listening I have seen; and his role is, after all, a marathon of listening.

Light speaks well, too, and, in a good sense, he is the least "theatrical" person onstage. His playing is very economical, but the least movement – the defensive lift of the chin, the apprehensive shift of weight to and fro, the clench of the jaw muscles – is highly expressive. Twice – breathing fast in response to one person's speech, sustaining a grin during another – he overdoes things; but, as he showed recently in *Clocks and Whistles* at the Bush, he is one of the most promising young actors around. When Rudolf Byng saw Maria Callas, in a Chicago *Trovatore*, listening to Jussi Björling sing an aria, he wrote "He didn't know what he was singing about, but she did." Thus with young Light as he listens to speech after speech in Bond's play.

In RSC repertory at the Pit, Barbican Centre, until December 10.

The Wexford Festival/David Murray

The singers save Sarka

With Luigi Ferrari now in his second year as artistic director, the Wexford Festival continues with the admirable work it has been doing since 1951: discovering new singers, and rediscovering old operas. Since last year each of the three operas has had an extra week of rehearsals, to everybody's advantage.

Or potential advantage. It was not enough to make Inga Levant's production of Zdeněk Fibich's *Sarka* (1897) look anything but flat and amateurish; and nothing could have polished away the witless, irrelevant ugliness of Charles Edwards' sets and lighting. But never mind: Fibich's strange, heartfelt opera greatly deserved a revival, and a fine team of singers often made it thrilling.

This was Fibich's penultimate opera, one of three that he wrote to libretti by his young mistress and muse Anežka Schulzová. In ancient Bohemian legend, Sarka was one of the council of women who founded Prague and reigned over it. When their leader Libuše died, leaving her husband Přemysl to grieve over her, Prague's menfolk rebelled against the ruling sisterhood ("Women's hair may be long, but their wisdom short!"). Rather than return to their hearths and spinning-wheels, the warrior maidens retreated to the woods, whence to stage a counter-coup.

After that, versions of the myth diverge. Smetana composed one version of it as a tone-poem, *Sarka* (in his cycle *Ma Vlást*), and also an opera *Libuše*. Schulzová's text here makes Sarka and her hostile lover Ctirad a Tristan-and-Isolde pair, whose long erotic duet is the centrepiece of Fibich's opera. The Wagnerian influence has been over-stated, however. There are a few obvious points where Wagner's structure has been a model; but *Tristan* is ripely chromatic throughout, and *Sarka* never is.

Instead, the conservative Fibich uses folk-modal inflections in his basically classical-Romantic score. Much of it is beautiful, individual and original. It seems to have fallen into neglect chiefly because his home audience – defensive about their national identity – found it insufficiently "Czech", unlike the music of Smetana, Dvořák or Janáček. At Wexford, it stirred most of us greatly.

It boasted a cast worthy of any opera house. Svetelina Vassileva's Sarka wielded a strong, lovely soprano that brought the warrior-maiden to palpitating life (and she looked wonderful). Her leader Vlasta – about whom both Dvořák and Smetana nearly wrote operas – was Denisa Slepkovska, whose sure, well-focused mezzo and palpable intelligence made one long to see her often again. If I single out Giuseppina Piunti and Juliet Booth from the other excellent "valkyries", it is only because they did full justice to their larger roles.

The much-put-upon Ctirad was the tenor Ludovit Ludha: not a specially alluring timbre, but virile, true and (when required) ringingly heroic. Anatoly Lochak, now a Wexford regular, sang old Přemysl to perfection – grave, warm, dignified, superbly clear. The American conductor David Agler, slightly inflexible with his singers, nonetheless led the National Symphony Orchestra of Ireland through a glowing account of the score. The chorus was fine. Forget the production: rewarding performances like this are just what Wexford is for.

In repertoire at Wexford until November 3.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Pieter Wispelwey: the viola-player performs solo suites by Britten; 8.15pm; Oct 25

BERLIN

CONCERT
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Berliner Barock Orchester: with conductor Konrad Latte and pianist Gerrit Zitterbart perform works by Mozart, Beethoven and Haydn; 8pm; Oct 25

OPERA
Deutsche Oper Berlin Tel: 49-30-3438401
● Eugene Onegin: by Tchaikovsky. Conducted by Jiri Kout, performed by the Deutsche Oper Berlin. Soloists include Ute Walther, Eva Johansson, Nadja Michael, Kaja Borris and Lucio Gallo; 7.30pm; Oct 25
Staatsoper Unter den Linden Tel: 49-30-20354438
● Die Walküre: by Wagner. Conducted by Daniel Barenboim and performed by the Staatsoper Unter den Linden. Soloists include Ulla Gustafsson, Falk Struckmann and Andrea Bönig; 4.30pm; Oct 27

BIRMINGHAM

EXHIBITION
Birmingham Museum & Art Gallery Tel: 44-121-2352834
● The City - Tony Phillips: exhibition of new paintings, drawings and prints of Paris, New York and Liverpool by Tony Phillips. Specially commissioned etchings of Birmingham and related work by students from Josiah Mason Sixth Form College are also on view; from Oct 26 to Dec 29

COLOGNE

OPERA
Opernhaus Tel: 49-221-2218240
● The Bartered Bride: by Smetana. Conducted by Erich Wächter, performed by the Oper Köln. Soloists include Johann Smari Saevarsson, Gudrun Volkert and Andrea Trauboth; 7.30pm; Oct 25

DUBLIN

CONCERT
National Concert Hall - Geoláras Náisiúnta Tel: 353-1-6711888
● David Lee: the organist performs works by J.S. Bach; 6pm; Oct 25

FLORENCE

OPERA
Teatro Comunale Tel: 39-55-211158
● Madama Butterfly: by Puccini. Conducted by Daniel Oren, performed by the Orchestra e Coro del Maggio Musicale Fiorentino. Soloists include Daniela Dessì, Francesca Franci, Richard Leech and William Shimell; 8.30pm; Oct 25

GLASGOW

EXHIBITION
Hunterian Art Gallery Tel: 44-141-3305431
● James McNeill Whistler. Graphic works, drawn entirely from the University of Glasgow's collection, including portraits, nudes, streetscapes, marines and river views. Among the works on display are etchings from his French, Thames, Venice and Amsterdam sets; to Oct 26

OPERA
Theatre Royal Glasgow Tel: 44-141-3323321
● Inés de Castro: by MacMillan. Conducted by Jonathan Moore, performed by the Scottish Opera. Soloists include Helen Field, Jeffrey Lawton and Jacek Strauch; 7.15pm; Oct 25

HELSINKI

OPERA
Opera House Tel: 358-0-403021
● Tosca: by Puccini. Conducted by Markus Lehtinen and performed by the Helsinki Opera. Soloists include Pirkko Törnqvist, Peter Lindroos and Ingvar Wixell; 7pm; Oct 25

INDIANAPOLIS

EXHIBITION
Indianapolis Museum of Art Tel: 1-317-923-1331
● Drawings of Life: Hoosier Artists in Munich: this exhibition includes more than 30 works on paper from the IMA's permanent collection. The portraits, figure studies, landscapes and sketchbooks were created between 1880 and 1890 by Indiana artists T.C. Steele, William Forsyth, Samuel Richards and John Ottis Adams while they were students at the Royal Academy in Munich; from Oct 25 to Aug 24

LONDON

CONCERT
Barbican Hall Tel: 44-171-6384141
● Kate and Anna McGarrigle: the vocalists/songwriters perform songs from their new album "Matapedia" and other works; 7.30pm; Oct 25
Royal Albert Hall Tel: 44-171-5898212
● London Welsh Festival of Male Choirs: featuring sixteen Welsh male voice choirs, the Band of the Welsh Guards with conductor Dr Haydn James, mezzo-soprano Leah-Marian Jones and organist Jane Watts; 7pm; Oct 26
Wigmore Hall Tel: 44-171-9352141
● Fretwork: with countertenor Michael Chance, organist Paul Nicholson and vocalist Elvis Costello perform works by Byrd, Lawes, Nyman & Costello, and Benjamin; 7pm; Oct 27

MADRID

EXHIBITION
Palacio de Velázquez Tel: 34-1-573-62-45
● Juan Muñoz: exhibition devoted to the work of this Spanish sculptor. The display features 89 sculptures, drawings and sketches, and aims to give insight into the artist's working methods; from Oct 25 to Feb 15

NEW YORK

CONCERT
Alice Tully Hall Tel: 1-212-875-5050
● Juilliard Chamber Orchestra: with conductor Otto-Werner Mueller perform works by Ravel, Strauss and Haydn; 8pm; Oct 25

EXHIBITION
Brooklyn Museum Tel: 1-718-638-5000
● Photography in Latin America: A Spiritual Journey: approximately 80 photographs, mostly landscapes and portraits, by Latin American artists such as Manuel Alvarez Bravo, Graciela Iturbide, and Mariana Yampolsky. Religion, death, mysticism, and tradition are among the common themes explored in each of the works; from Oct 25 to Jan 19

OPERA
Metropolitan Opera House Tel: 1-212-362-6000
● Fedora: by Giordano. Conducted by Roberto Abbado, performed by The Metropolitan Opera. Soloists include Freni, Arteta, Armiliato and Stilwell; 8pm; Oct 25

PARIS

DANCE
L4Opéra de Paris Bastille Tel: 33-1 44 73 13 99
● Notre-Dame de Paris: a choreography by Roland Petit to music by Jarre, performed by the Ballet de l'Opéra National de Paris and the Orchestre de l'Opéra National de Paris; 7.30pm; Oct 26

EXHIBITION
Institut Néerlandais Tel: 33-1-53 59 12 40
● Avant-première d'un musée - le Musée d'art contemporain de Gand: The All-American Musical: exhibition on the history of the American musical and the personalities who gave it life. Highlights include a set model from the 1994 revival of "Show Boat", Mary Martin's sailor suit from "South Pacific", lights from the M-G-M soundstage where "Meet Me in St. Louis" and "Singin' in the Rain" were filmed, and neon marquees and posters from "Carousel", "Annie Get Your Gun" and "Oklahoma!"; from Oct 25 to Feb 9

WORLD SERVICE

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08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Economic Viewpoint · Samuel Brittan

Don't worry about success

The rising pound and falling UK unemployment should be welcomed as good news, rather than feared for their possible effects on competitiveness

It is a funny old world where good news is treated as bad.

Consider first the rise in sterling over the past six months. One would have expected this would be regarded as a welcome change after decades of depreciation. The pound fell from DM12 in 1960 to a little more than DM2 in recent years. Yet the usual murmuring is beginning in some business circles about the threat to exports and British competitiveness.

It is time that more people recognised that the huge fall in sterling over the past three decades was related to the UK's abysmal inflation performance. There will be no fundamental stabilisation of British prices unless this long-term deterioration comes to an end.

A more domestic indicator – the sharp fall in British unemployment – is also being greeted with dismay by some commentators because it is regarded as a sign of more inflationary pressure and therefore a harbinger of higher interest rates to come.

A little common sense and a refusal to treat good news as bad would be in order. The unemployment fall is not a reason for tightening monetary policy – not even when it is considered in conjunction with business surveys showing rising orders and activity.

It is, of course, possible for unemployment to be so low or fall so quickly that inflation rises. Rising inflation can also occur when there is too small a margin of unused industrial capacity. Economic writers therefore have no need to apologise for forcing down readers' throats unwelcome abstractions such as the Nairu (the rate of unemployment at which inflation does not accelerate) or the "output gap", which indicates how much room there is for increasing output before costs and prices begin to take off. But it is a disservice to understanding to try to put firm numbers on these concepts – and especially to adopt the common habit of using econometric estimates expressing the experience of a decade and more ago.

The so-called Taylor rule, which depends on such estimates and which many US analysts have wished on the Federal Reserve, would make monetary policy a function of the output gap. Alan Greenspan, the Fed chairman, has however confounded the prophets by his reluctance to raise interest rates on the basis of estimates of this gap. He has rightly insisted on more direct evidence of inflationary forces before being prepared to put on the brakes.

There is a lot of indirect evidence that the unemployment rate consistent with economic balance has fallen in the UK since the 1980s. The labour market reforms initiated under Margaret Thatcher have played a part. Those who get white with anger when you mention this should look at other forces, such as the famous globalisation of the world economy, widespread fears of job losses and publicity for macho-managerial notions such as de-layering.

But one can be more specific. The fall in UK unemployment reflects more jobs for women and part-time workers. Such workers have a valuable role to play in the British economy; but they are not the main conduit for inflationary pressures, which normally arise in the market for full-time males. Yet according to the Labour Force Survey, there was a slight decrease in male employment between 1995 and 1996.

Unfortunately there are more direct signs of inflationary forces. Not only is the broad measure of money increasing by nearly 10 per cent per annum. The narrow measure has been well above its official guideline for more than two years. On this occasion the monetary overshoot is being accompanied by rising asset prices. Housing, commercial property and farmland prices have all been increasing.

In the end, the main guideline should be the total flow of cash spending, or "nominal demand". The flash third-quarter gross domestic product figure to be published tomorrow should give a first clue. But assessing it will be more an art than a science. The chancellor's advisers will, for instance, have to take into account the tendency for such early estimates to be revised upwards.

If it becomes clear that a boom psychology is gaining ground, it will be important to nip it in the bud. It is thus more probable than not that interest rates will have to rise before very long. And could our financial analysts stop being more political than the politicians in denying that this can happen in the run-up to an election? Interest rates have increased in the months, although not weeks, before an election in the past, and they could do so again. Once a decision has been taken, there will be a strong case for moving up by ½ or 1 percentage point (depending on the next batch of data) rather than the now customary ¼ point.

The rise in sterling is being cited as a reason not to raise British interest rates, despite domestic inflationary pressures. And it is true that a higher exchange rate puts pressure on corporate margins, and therefore has comparable effects to a tightening of monetary policy. For want of anything better, analysts are already disinterring the old Treasury rule of thumb that a 4 percentage point rise in the trade-weighted sterling index is equivalent to a 1 point increase in base rates.

But before any reasoning of this kind can be applied, one needs to ask about the starting point. Sterling fell after the pound left the exchange rate mechanism in 1992. But it also suffered a secondary and little-noticed post-ERM setback in 1995 to reach a level 25 per cent below the old ERM parity of DM2.95.

There was no chance of the ultra-competitive pound persisting. Other European Union countries only tolerated it on the assumption that it was temporary and that the UK was an exception. Fierce attempts are at this moment being made to resurrect the ERM to prevent competitive depreciation by countries not initially taking part in European economic and monetary union.

Sterling's rise should not for the moment be allowed to influence UK interest rate policy. In 1990 Hans Tietmeyer of the Bundesbank advocated a sterling entry rate into the ERM of DM2.90. Subsequently Karl Otto Pohl, the Bundesbank's then president, said that DM2.60 to DM2.65 would have been more realistic*. The DM2.60 to DM2.90 range is still the best guess for sterling's safety limit on the upward side. Michael Saunders, the assiduous Salomon economist, has estimated that sterling's real exchange rate at the end of last week was 5 per cent below its long-run average.

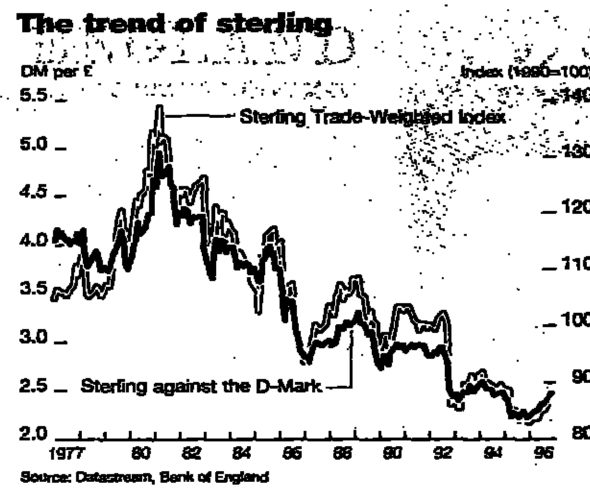
The reason why the British government abandoned efforts to stay in the ERM was not because the parity was obviously too high. It was because German short-term interest rates, which averaged 9½ per cent in 1992 in the aftermath of unification, were too tight for Britain – which was in the throes of a recession – to emulate. The departure from the ERM allowed UK interest rates to fall more quickly than German and other continental rates, and thus give economic recovery a kick start.

But this is now water under the bridge. Since the early 1990s, British and German costs have moved in a remarkably similar way. But because of what happened earlier still, it is the D-Mark that many economists suspect is overvalued.

So do not worry about a reasonably strong pound and do not worry if interest rates move upwards. And do not worry about falling unemployment. These are all aspects of success, not of failure.

*Politics and the Pound, *Philip Stephens, Macmillan*

The trend of sterling



Source: Datastream, Bank of England

BOOK REVIEW · Tony Jackson

THE BUSINESS OF ECONOMICS By John Kay
Oxford University Press, £17.99, 216 pages

A stakeholder at the heart of business

One of the big problems about the study of management is that it lacks a credible intellectual basis. This is sometimes blamed on snake-oil salesmen passing themselves off as consultants. But their existence, while real enough, is a result of the problem rather than its cause.

The central snag is that companies are unique entities, each with a life and character of its own. Their diversity eludes classification, so general management theories of re-engineering, focus and so forth turn out to be terrific for some companies and lousy for others.

Professor Kay's book – a collection of essays and newspaper articles, some of them from the FT – tackles the problem afresh. He starts with the advantage of being an economist, which is an intellectual basis of sorts. And unlike most economists, he looks for the secrets of corporate success not in macroeconomic generalities but within the companies themselves.

Welcome, then, to the resource-based theory of strategy. If that sounds daunting, the reality is simple. The past success of a company, Kay says, rests chiefly on its distinctive capabilities – the things it does that other firms cannot. Its future depends on how far those capabilities can be copied by rivals. It also depends on how well the firm matches its capabilities to its markets.

While this sounds obvious enough, it turns out to be a handy way of thinking about why companies succeed or fail. It also rests on a more basic thesis, which informs most of the pieces in the book.

Kay's view of life has elements of Burke-style conservatism. In general, he argues, things are the way they are for a reason. If you are seeking change, you must take that into account. Go against the grain and the changes will fail.

Corporate strategies, he says, are commonly wish-driven: that is, they are based on what a company would like to be, not what it actually is. Saatchi and Saatchi failed in its ambitions to become a global consultant because its actual strength lay in creating advertisements. AT&T bought NCR on the grounds that telecoms and information technology were converging: but because it was a phone company, not a computer company, it made a botch of it.

But if Kay's basic thesis is conservative, his development of it sometimes makes him sound like New Labour. Take, for instance, the stakeholder/shareholder debate. The proposition that shareholders own the company, Kay argues, is simply not true. They merely have certain specified claims on it, as do others.

Take the regulation of privatised utilities. The reality, Kay argues, is that the managers of these companies are primarily driven by the desire to serve customers, not shareholders.

If you seek to restrain their profits through tougher regulation, you set up an adversarial guessing game between management and regulator, in which the customer gets forgotten. So why not set up a new kind of "customer corporation", in which dividend payments are determined not by higher earnings but by lower charges to the customer?

Taken to its extreme, Kay's logic brings him to defend the principle of industrial policy, in the sense of governments picking winners. The reason this has become discredited, he says, is because in the past it, too, was a wish-driven strategy. Governments backed sectors or corporations because they saw them as desirable on *a priori* grounds. When the British government used public funds to support steel or motor cars, it was picking losers in the doomed hope of turning them into winners.

If the government had looked at the way things actually were, it would have realised that the sectors to back were those in which Britain had an edge, such as pharmaceuticals, insurance and retailing. Or, instead of banging away at liberalising trade in manufactures, it would have concentrated on freeing air traffic, exploiting the strengths of British Airways and Heathrow.

It has to be said that Kay's solutions are mostly weaker than his analysis. The idea of the customer corporation raises as many problems as it addresses. Some of the proposals for stakeholder corporations are pretty odd as well.

For instance, Kay wants independent directors – nominated by stakeholders – to have power to appoint the entire executive. This would rule out hostile takeovers, since ownership of the shares would not confer the right to change the management. In a system such as the British, where the threat of takeover is often the chief agent of change, is that necessarily a good thing?

But as Kay also points out, prognosis is not the strong point of economists. The great thing is to understand the situation you are in now. In helping to think that through, his book is quite useful enough to be getting on with.

The Business of Economics is available from FT Bookshop. Ring FreeCall 0500 418 419 (UK) or +44 181 964 1251 (outside the UK). Free p&p in UK.

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Take more charge of a career

From Mr Phil Gott.

Sir, It is welcome news that the Confederation of British Industry is to target job insecurity ("Companies to be told to tackle job insecurity", October 15).

In the old world of employment, the written contract was supplemented by an implicit contract offering job security and advancement. But the business world has moved on and careers must change too. Instead of job security, the new contract needs to offer employability through marketable skills. Instead of a career ladder, in the new, flatter structure, a career climbing frame is a more appropriate analogy, with lateral moves, project work and expanded roles.

But the responsibility should not and must not be taken on solely by employers. Employees have for too long abdicated responsibility for their careers to their employers. Insecurity usually flows from not being in control, and one of the most constructive steps employers can take – and leading employers are doing so – is to move employees to take responsibility for their working lives.

Phil Gott,
director,
Peopleism,
Forest Lodge,
Stoke Goldington,
Newport Pagnell, UK

Fallacy of Maastricht proposals

From Mr John Grieve Smith.

Sir, Sir Donald MacDougall (Letters, October 17) has done the Emu debate a valuable service by underlining that the strong "pro-Europeans" can still be critical of the Emu route to greater unity. The monetarist-inspired Maastricht proposals were based on an economic and constitutional fallacy: first that monetary policy is the only effective means of controlling demand; then that this, the key instrument of economic policy, should be put in the hands of an unelected authority, the European central bank. Monetary union should follow, not precede, the eventual creation of an elected European federal government with responsibility for a European budget and the general conduct of economic policy.

Premature monetary union would exert further deflationary pressures on those parts of the European economy which are suffering from dangerously high unemployment. The convergence conditions are already leading to a series of deflationary budget measures in Germany, France, Italy and Spain which will increase unemployment and weaken support for the leading democratic parties. The present headlong rush to Emu needs to be checked before it becomes a critical threat to the stability of European democracy, whose maintenance is the fundamental objective of European integration.

John Grieve Smith,
fellow, Robinson College,
Cambridge CB3 9AN, UK

Bias that gets in the way of facts

From Mr Brian J. Lewis.

Sir, Congratulations. Finally an objective analysis of Mr Bob Dole's strengths and weaknesses. Michael Prowse ("The case for Dole", October 21) put his finger right on the button when he noted: "One of the obstacles facing Republican candidates [in the US election] is the Democratic bias of nearly all the opinion-forming groups, including journalists, academics and teachers, the publishing industry and Hollywood." He could have noted that in 1992 some 89 per cent of media people voted for Clinton.

This includes the FT and your regular posse of US correspondents who have been banging Clinton's drum for the last 12 months as they actively promote a Clinton-Blair axis for the balance of the 1990s.

Your readers deserve better. To borrow Mark Twain, in the future, please "get your facts straight first . . . then you can distort them as much as you please". But do it under the heading of editorial, not by posing as supposedly objective journalism. Otherwise, I may wonder what other stories are not really as they are said to be.

Brian J. Lewis,
The Brian J. Lewis Company,
4220 Morningstar Drive,
Castle Rock,
CO 80104-9092, US

From Mr John Peterson.

Sir, Actually, Michael Prowse is more convincing than usual in preaching the (presently overlooked) virtues of Bob Dole. But does Prowse have any evidence to prove that "the Washington press corps voted overwhelmingly for Mr Clinton in 1992"? Even if it did, does that automatically translate to media bias against Dole?

Even more over the top is Prowse's assertion: "One of the obstacles facing Republican candidates is the Democratic bias of nearly all the opinion-forming groups."

With Spiro Agnew gone, does Prowse feel obliged to carry on his legacy by blaming Republican woes on the "nattering nabob of negativity"? Is Prowse not one himself?

John Peterson,
Jean Monnet senior lecturer,
Department of Politics,
University of Glasgow,
Adam Smith Building,
Glasgow G12 8RT, UK

Independent lottery fund would halt growing tax by stealth

From Mr Daniel Phelan.

Sir, George Parker and Raymond Snoddy ("Major fails to cash in on big gamble", October 21) are correct to point out that both leading political parties are attempting to blur the distinction between the allocation of lottery funds and normal government spending. Cash currently flowing through the Millennium Fund is clearly being earmarked by both parties for projects after the year 2000 that are currently the responsibility of government, such as information technology in schools.

Despite protestations that these funds would be in addition to existing departmental budgets, there is clearly a significant danger that they will be assimilated into Treasury calculations when the going gets tough in future public spending rounds.

To avoid this increase in tax by stealth, Millennium cash should instead be funnelled into a new independent permanent endowment fund which would be invested, distributing only income. If the National Lottery had been in existence 15 years ago and such a fund had been initiated, it would by now have ring-fenced a staggering £7.5bn and be distributing the best part of £800m per annum.

This would thus create a permanent and growing source of significant independent funding for good causes instead of a quick fix for a hard-up administration.

Daniel Phelan,
editor, NGO Finance,
Plaza Publishing,
1A Tradescant Road,
London SW8 1XD, UK

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Thursday October 24 1996

Flexible friends

The EU's treaty-revising conference, now nearing its half way mark, is no longer expected to agree on any dramatic streamlining of the union's decision-making processes. But that very fact forces it to confront the issue known as "flexibility", or "differentiation", or (to true aficionados of eurojargon) "enhanced co-operation". If all cannot agree on doing something together, can they not at least agree on some doing it while others abstain? Even if such a procedure is not needed now, it is argued, it surely will be when EU membership has expanded to 20 or more.

In fact it already happened at Maastricht, where the 12 (as they then were) wrote into the treaty terms for a single currency which, at least to start with, not all member states will share. They also agreed that EU institutions could be used to implement a social protocol, outside the treaty, which only 11 of them signed.

Those were the aspects of Maastricht which enabled Mr John Major, at the time, to claim "game, set and match for Britain". In essence his government still regards them as a satisfactory precedent, and sees no compelling reason to write a new clause into the treaty.

If some member states wish to use EU institutions and the EU budget for a particular purpose, the UK argues, the least they should do is obtain the non-participants' consent. Of course, as sovereign states they have the right to devise and implement whatever new forms of co-operation they please among themselves, but if they wish to dispense with the consent of other member states then let them do it outside the EU framework. Here too there are precedents: the Western European Union (WEU), which is a defence pact, and the treaty of Schengen, which abolishes frontier controls between its signatories. Both have been signed by only some EU members, and their machinery is separate.

Most member states feel, however, that a proliferation of such arrangements would be untidy, and could threaten the EU's cohesion. Better, they argue, to keep flexibility within the EU framework and agree some ground rules for its implementation. France and Germany have now proposed one possible set of such ground rules. It is unlikely to find favour with the present British government, since one of the "fundamental principles" it proclaims is that "no member state would have the right of veto".

In fact it is clearly designed to set aside the need for unanimity in areas where that is at present required. It explicitly imports the principle of qualified majority voting into the area of common foreign and security policy (something the French have hitherto opposed); and it also mentions defence as a suitable field for applying the principle, whereas the UK is committed to keeping the EU out of defence for fear of weakening Nato.

These proposals will certainly not be the last word on the subject. Their authors would not expect that. The issue is unlikely to be resolved until the conference reaches its endgame next summer, but it is one that cannot be avoided or fudged. It may well be the question on which the UK finds itself under greatest pressure.

Party politics

Those in Britain looking for purposeful government will be sorely disappointed by the legislative programme presented at the state opening of parliament. The Queen's Speech offered pomp without substance, party politics in place of policy-making.

The list of bills outlined for the last session of the present parliament was necessarily truncated. The general election must be held at the latest by May 1997, shortening greatly the time available for legislation. Nor should one make the mistake of confusing the quantity of legislation for the quality of government. New laws are too often promoted as an eye-catching substitute for effective administration.

That said, the programme offered by Mr John Major's government is a depressing reflection of the current condition of political discourse. Almost without exception, the favoured bills were chosen because of their capacity to embarrass the opposition parties rather their contribution to better governance.

Several worthwhile measures were dropped at the last moment. These include two bills which would have helped promote a more efficient economy. A long-overdue overhaul of the legal framework for building societies and changes to the restrictive practices laws are among those shelved. The Treasury will lobby hard to get the former reinstated before the election, but there is no certainty that it will succeed.

Instead, the government has made the centrepiece of its programme legislation to extend mandatory sentencing for violent criminals and repeat offenders and to extend academic selection in schools. The first of these measures envisages a worrying transfer of responsibility from the judiciary to the executive. The second is scarcely relevant to the real problems facing secondary education. Their principal strength is seen in the potential to embarrass the opposition.

Mr Major's last-minute decision to include tougher legislation on paedophilia and stalking, for which there is cross-party support, took some of the partisan edge off the programme. But he would have done better to offer a free vote on the vexed issue of gun control after the Dunblane massacre. The decision on whether there should be a partial or total ban on the ownership of handguns is best left to the individual judgment of MPs. But party politics rules. The voters are the losers.

Trade blocs

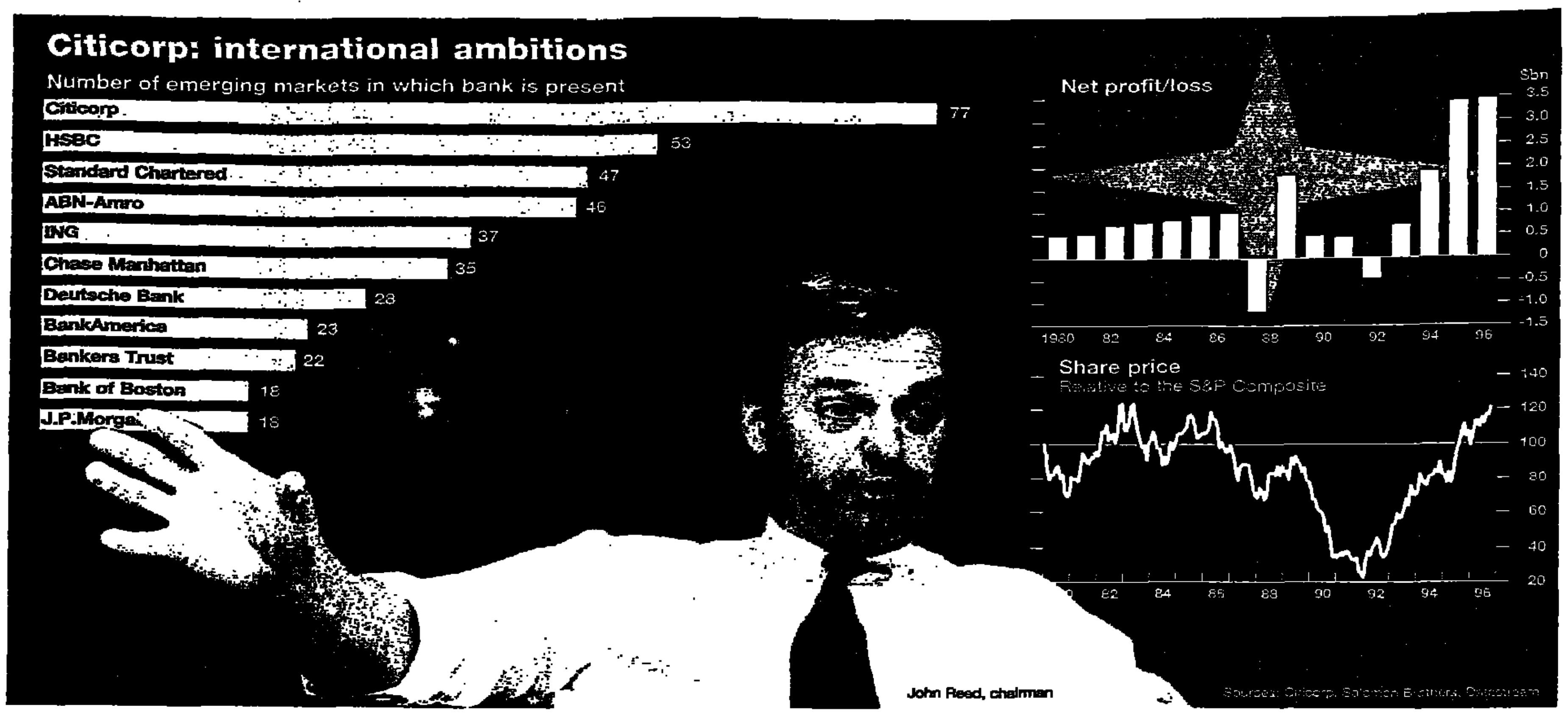
The faster the global economy integrates, the stronger the urge among countries to band together in regional trade groupings. The significance of the trend is as fiercely disputed as the motives driving it seem paradoxical. Some policymakers claim that freer regional trade will help to promote multilateral liberalisation. Others, however, fear the result will be to fragment the world economy into discriminatory trade blocs.

A scathing World Bank study of Mercosur, the Latin American "free trade" grouping, offers persuasive evidence for the latter view. It finds Mercosur has been economically distorting, because its four members have lowered barriers to trade with each other, while keeping high protective walls against the rest of the world. That not only penalises third country exporters. It denies Mercosur economies the biggest gains which genuine trade liberalisation would offer.

The study suggests that, by sheltering its market from international competition, Mercosur is perpetuating industrial inefficiency and gives local producers no incentive to strive for world-class performance. Even though the average external tariff of Mercosur's members has fallen, there is a danger that they will repeat at a regional, rather than a national level, some of the mistakes of the autarkic policies which crippled their economies in the 1960s and 1970s.

Few other regional trade groups are ringed by such high barriers. But they nonetheless pose challenges to the integrity of the multilateral system. Even in those with low external tariffs, arbitrary rules of origin and dumping measures threaten discrimination against imports from third countries. Unco-ordinated regional efforts to draft regulations in areas such as services and investment risk producing different and incompatible results. Conflict and confusion are made more likely by partially overlapping membership among groups.

The World Trade Organisation is now trying to formulate stricter disciplines for regional trade groupings. The World Bank study underlines the need for action – and suggests that a rigorous analysis of Mercosur's trade impact should be a priority. Meanwhile, WTO ministers should aim to reduce the divisive dangers of trade regionalism by pledging at their forthcoming Singapore conference to speed up and take further liberalisation measures agreed in the Uruguay Round.



John Reed, chairman

The craving for recognition

Citibank's chairman tells **Richard Lambert** and **George Graham** about the US bank's strategy for becoming a global brand

Coca-Cola ... Nike ... Sony ... Could a bank's name one day enjoy the global recognition that these brands enjoy, and reap the financial rewards that go with it?

That is the ambition Mr John Reed holds for Citibank, the New York-based bank he has headed since 1984.

It could be a tall order. Although banking is in some ways the most international of businesses, banks have generally fallen flat on their faces when they have tried to move beyond cross-border wholesale banking and into retail financial services outside their home country.

Mr Reed admits he has a long way to go. "We are not today strong enough in our brand position to say that we have any advantage. Among financial institutions we probably have the most globally recognised brand, but that's like saying there are 10 midgets and you're the tallest of them," he said this week in an interview.

With operations in 98 countries and full-scale "Citibanking" consumer banking businesses in 39 of them, Citibank can certainly lay claim to being the most global of banks.

Mr Reed acknowledges the extensive networks of HSBC Holdings and Standard Chartered, the two UK-based Asia-Pacific banking groups, as well as ING and ABN-Amro, two Dutch financial groups with substantial international ambitions, but says all have weaknesses.

But turning Citibank's breadth of geographical coverage into a global brand that really stands for something will require a degree of centralisation and discipline that has often been absent at the bank. Powerful country and product bosses have traditionally done pretty much what they liked in their own baronies. Mr Reed admitted that Citibank's traditional style was that each chieftain "does whatever he wants".

Mr Reed's reference points are not to other banks but to consumer goods companies such as Philip Morris and Colgate-Palmolive. He reads a stack of stockbrokers' reports on consumer industries from Morgan Stanley, the investment bank, every month, and has joined a New York group of securities analysts to listen to executives from consumer product companies talk about their businesses.

Citibank has also recruited Mr Bill Campbell, former head of Philip Morris USA, to run its branch network.

But investors do not need to be reminded that neither a consumer focus nor the spread of its operations has saved Citibank and its parent Citicorp in the past from the mistakes that its loose structure could produce.

After surviving the Latin American debt write-offs of the 1980s, the bank ran into a new crisis in 1990 when severe problems on real estate loans in the US and other developed countries coincided with inadequate capital and reserves. "We got in trouble at the end of 1990. We certainly were not prepared for it," Mr Reed said.

Fuelled by 20 cups of coffee a day – he travels the world with a packet of his favourite Starbucks grounds, and Citibank offices have pots labelled "John Reed's Special Coffee" – Mr Reed spent much of the next five years rebuilding Citibank's finances.

The group has now regained a AA credit rating from US rating agencies, boosted returns on total equity from a negative 4.5 per cent in 1991 to a positive 18.3 per cent last year, and restored its share price to more than twice book value.

That was not just an exercise in financial management, but a behavioural change. Steps included a revamp of personnel functions, as well as a tightening of risk control procedures and much tougher internal audit controls.

Only in the past two years, however, has Citibank felt secure enough to leave crisis management behind and develop a more ambitious strategy.

"One of the things we must have is a very disciplined strategy that is binding to all of us," Mr Reed said. The single biggest word in the new strategy, he said, is "global".

"To some extent our model is somebody like Gillette. When they look at introducing a new product, they will be able to introduce the product through a global manufacturing capability and a global distribution capability and the product will be the same," Mr Reed said. He noted that established brands can support a pricing differential of 30-35 per cent over unbranded rivals.

The strategy, labelled Business Directions, starts from Citibank's strengths. That means an unusual blend of consumer and corporate banking, of industrialised and emerging markets.

In the first nine months of this year, consumer businesses provided $1.47bn of Citibank's $2.8bn net income. Broken down by product, cards produced $749m and "Citibanking" $558m, with $201m from private banking for wealthy individuals. By region, developed markets accounted for 56 per cent and emerging markets for 44 per cent.

Commercial banking, in the same period, produced net income of $1.63bn, with 72 per cent coming from emerging markets and only a quarter from what Citibank calls global relationship banking for multinational companies in the developed markets.

While the strategy includes growth in commercial banking, the bulk of Citibank's long-term earnings growth is expected to come from consumer banking and credit cards.

Citibank is already well down the road towards presenting a uniform face to its consumer banking customers around the world: cash machines that all work in the same way, branches with similar layouts.

But Mr Reed acknowledges that this to some extent is facade. "Traditionally you put a front office in that makes everybody feel like it's the same, and that deals with a real mess in the back office," he said.

Over the next three years, however, he plans to bring together Citibank's back offices around the world. Besides a single basic computer system and common telephone, cash machine and PC banking capabilities, that means centralising processing from around the world in large and more efficient centres.

Already, credit card processing for Europe is handled in South Dakota, and statement processing for the Caribbean region has just been moved to Maryland. Today, it is in these processing operations that the real economies of scale are to be found.

But Mr Reed is also convinced that there are cost efficiencies to be gained when the bank can develop a single new product for the whole world rather than maintaining product development and design teams in every country. "We have yet to prove it, but every indication is that there are going to be immense economies of scale having to do with product development and product roll-out when you can do it on a globalised basis."

To many competitors, Mr Reed's vision of creating a global brand in banking is a pipe dream; many have bitter experience of how difficult it is to develop beyond their home markets.

But Mr Reed is determined that Citibank will one day stand side by side not with HSBC and Deutsche Bank but with Coca-Cola and Sony. "At the level of Sony, you're talking 20 to 30 years," he said. "But we intend to build it."

How John Reed sees the future

● Investment banking
We said, hey, do we want to be a traditional investment bank? We said no we don't ... We see that as product positioning, where your customers are the people who need your particular service at that particular time and you have a revolving set of customers over time but a constant commitment to a set of products. We said we'll have a constant commitment to a set of customers.

We don't think we'd play from strength if we were to be a broad-line investment bank.

● Middle market
It is an attractive market, no question, the middle market as pursued by NationsBank and in an important way by Bank of America or BancOne or the bulk of Deutsche Bank's activities in Germany. It's an attractive market from a return point of view, it's not wildly attractive from a growth point of view.

If we decided to go into it in America, it would have to be by acquisition. If you looked at us merging with a NationsBank or a BofA or any of those, the outcome just on a numerical basis is quite attractive. It has decent returns, decent capital ratios and so on. But the value of our global franchise would be much dulled.

● Credit cards
Database marketing in America is a very powerful instrumentality, and it's today driving the marketplace in the credit card business – and it's good and it's bad.

The good, of course, is it allows you really to keep track of people and be quite responsive to them and to anticipate their needs ... On the other hand, database marketing in America right now is allowing almost singular pricing. We can price a card to you differently from a card to the neighbour across the street.

To some extent that means that people who appear not to be as creditworthy don't get the benefit of lower pricing. You get rid of some of the insurance aspects of being a pool of people.

· OBSERVER ·

Hanging up on AT&T

■ Bob Allen, chairman since 1988 of AT&T, should have slept easier last night now that the largest US long-distance telephone company has finally appointed its next president.

With a clear mandate to succeed the 61-year-old Allen as chairman when he retires in two years, John Walter's arrival should make Allen's premature exit a somewhat sweeter pill to swallow.

Few leaders of technology companies – apart, that is, from John Akers of International Business Machines – have seen their personal prestige dip so rapidly as Allen, who had been expected to stick around at AT&T until 2000.

Once one of America's most admired executives credited with transforming a staid monopoly into a competitive powerhouse, a combination of poor results, larger than anticipated job losses and strategic gaffes has made the mild-mannered Allen a target of attacks from all sides.

It is still far from clear whether his audacious scheme to break AT&T into three parts, losing 50,000 jobs in the process, is the right solution in the fast-evolving global telecoms market.

AT&T's disastrous flirtation with the computer industry is another measure of the problems associated with Allen's stewardship. In 1991 he purchased NCR, America's oldest business machine company, paying more than $7bn for a business making very modest profits.

Buying a computer company was one thing, managing it another. Several changes of undistinguished name later, the business was clocking up annual losses of some $600m when Allen decided to spin it off as a separate group.

Known once again as NCR, it actually seems to be on the way back to profitability. Would that the battleship AT&T, facing ever stiffer competition in its core markets, could be turned around so rapidly itself.

Emu flutter

■ The spectre of a single European currency and the consequent scramble for fiscal austerity is causing plenty of strains across the continent – some more unexpected than others. The rush to Emu is, for instance, indirectly upsetting the normally mill-pond calm relations between Spain's Roman Catholic church and the conservative government.

The trouble started when deputy prime minister Francisco Alvarez Cascos got married at the weekend. And a very big bash it was. Indeed the southern city of Cordoba, where the festivities were held, more or less ground to a halt as police made way for the safe passage of the assorted luminaries in attendance.

Certain churchmen were not amused. "We Catholic Spaniards would have preferred more respect and discretion," a spokesman for the Spanish bishops said. One of their number was more specific, writing that the scale of the festivities "could confuse a lot of people in view of the austerity preached by the government".

Normally the conservatives get criticised for being too chummy with the church, especially following the appointment of a member of the Opus Dei congregation as speaker of congress.

No doubt the fuss has absolutely nothing to do with the fact that 49-year-old Alvarez Casco is a divorced father of four and has hitched himself to a 22-year-old law student.

Root and branch

■ The British government takes pride in its special relationship with Japan, whose international manufacturers have lavished a generous flow of jobs and inward investment on the UK over the years.

The warmth of that relationship was symbolised by the recent visit of the emperor's daughter Princess Sayako to the UK, where, among other things, she opened a Japanese gateway and landscape at the Royal Botanical Gardens in Kew.

As she did so, the princess delivered a fine speech praising her country's links with Britain, which she said had flourished as abundantly as a tree planted in Kew gardens by her late grandfather, Emperor Hirohito, on his state visit there in 1971.

Trouble is, nobody told Princess Sayako's speech writer that the Japanese emperor's tree was uprooted by a British prisoner of war group almost immediately after it was planted. Neither had anybody seen fit to replace it. It's the thought that counts ... Or not.

Mao mangling

■ Mao Zedong has finally abandoned his local dialect, in favour of a standard Mandarin Chinese accent – a mere two decades after his death. While Mao gloried in a thick Hunanese brogue whilst alive, film-makers have been indulging in a spot of linguistic correctness. A new series of movies dubs the great man's words into China's official language. It is not known whether he speaks into a mobile phone.

The Financial Times

100 years ago

Exports From The Fatherland
More than half the total of the German exportation by sea to European countries finds its way to the United Kingdom, and as the most important articles consist of sugar, eggs, butter, woollen goods, cotton yarns and hosiery, the fact is all the more worthy of attention, inasmuch as there is no reason why we should depend on the Fatherland for our supplies of these goods. Our Consul at Hamburg, from whose report the information is obtained, refers to the growing competition between Germany and Great Britain, and, assuming for the time the part of the "heavy father," lectures our merchants on the number and magnitude of their sins of omission. "Unless we are prepared, " he observes, "to fight our competitors with their own weapons to spend the same amount of enterprise and plodding perseverance, to put aside once and for all the conceit that we are superior to anything, I fear that future generations will suffer for the shortcomings and short-sightedness of their fathers." It is to be hoped that the British trader will be duly humbled. Our Hamburg representative administers a further rebuke to the fomenters of labour disturbances. However we fear the appeal is made to deaf ears.

FINANCIAL TIMES
Thursday October 24 1996

New evidence links mad cow disease with CJD

By Alison Maitland in London

British scientists today publish the strongest evidence yet that the new strain of a fatal human brain disease is caused by BSE.

Their research, a further blow to the embattled beef industry, shows that the new strain of Creutzfeldt Jakob Disease that has affected 12 young people in Britain over the past two years is wholly distinct from other types.

It also opens the possibility of a live blood test for CJD in the next couple of years. The findings will help to determine whether bovine spongiform encephalopathy (mad cow disease) has crossed the "species barrier" into sheep, posing a potential further threat to human health.

Professor John Collinge of the Imperial College School of Medicine at St Mary's Hospital, London, said his team's research, published in Nature magazine today, should be taken seriously. "We can't predict how many further cases of new CJD there will be, but we need to start thinking very seriously about developing therapies and drugs in case the worst case scenarios come to pass," *he said.*

On March 20, the UK government triggered the beef crisis by announcing that the victims of the new CJD strain were likely to have got it by eating infected cattle material, before certian types of offal were banned from the human food chain in 1989.

The Department of Health said yesterday: "This is the first time we have had any experimental evidence to support our view that there may be a link. It's not totally conclusive, but it's persuasive."

The findings will be considered by the government's advisory committee on BSE and CJD at a meeting later this month, in case further health measures are needed.

However, Prof Collinge said the government was already working on the assumption that BSE could harm humans and measures were in place to protect public health.

Cattle organs *such as the* brain, spleen and spinal cord were banned from the human food chain in 1989 because of the possibility they could contain BSE.

The research team identified a molecular "marker" or signature that distinguishes the new variant of CJD and is also seen in BSE in cattle and other infected animals.

Prof Collinge said the molecular markers could identify CJD strains in days rather than the one to two years previously needed in tests on mice.

The research is published as the Meat and Livestock Commission today holds a "festival of British beef" to try to restore confidence in the safety and quality of the meat.

Farmers' protest, Page 9

German workers protest as pay talks collapse

By Wolfgang Münchau in Frankfurt

Pay talks between German engineering employers and unions broke down yesterday, calling into question the country's system of regional wage bargaining.

IG Metall, the engineering workers' union, will hold rallies all over Germany today in protest against cuts in sick pay, one of its most jealously guarded entitlements.

The dispute arose after the collapse of a three-day crisis meeting outside Frankfurt. Leading industry representatives yesterday warned of a "hot autumn" of strikes and disruption in the largest industrial sector of the German economy.

Gesamtmetall, the engineering employers' federation, which groups 8,000 companies in regional affiliates, said the collapse in the talks was likely to trigger fundamental changes in the relationship between employers and employees.

Speaking after the meeting, Mr Werner Stumpfe, president of Gesamtmetall, said: "We are now prepared to let the sick pay issue drop out of the regional industry-wide sector agreement. We have tried to save the regional-wide contracts. But we did not find the partner."

Many representatives of German engineering industry are concerned that wage agreements are too costly and too inflexible. A growing number of companies believe they could secure better deals with trade unions themselves, rather than through the current system of centrally negotiated settlements.

If sick pay were to drop out of regional wage contracts, engineering employers would have taken the first step towards undermining the regional wage bargaining system, seen as the foundation of German labour relations. It would force companies and unions to negotiate their own agreements, if they chose to deviate from the minimum statutory entitlements.

The confrontation was sparked earlier this month when a new law cut statutory minimum sick pay entitlement from 100 per cent of wages to 80 per cent.

IG Metall is fighting to keep the old sick pay arrangements in future wage contracts. Mr Stumpfe said he had offered a compromise between 80 and 100 per cent, but this had been rejected.

Today's mass rallies commemorate the 40th anniversary of a 114-day strike, at the end of which IG Metall secured many of the current sick pay arrangements.

Brundtland to stand down as Norwegian premier

By Hugh Carnegy in Stockholm

Mrs Gro Harlem Brundtland, the dominant political figure in Norway for the past 15 years, announced yesterday she would resign as prime minister to make way for new leadership.

She is set to be succeeded tomorrow by Mr Thorbjörn Jagland, who has been chairman of the ruling Labour party for the past four years and has long been Mrs Brundtland's heir-apparent.

Mrs Brundtland, who has seen Norway rise to become the world's second biggest oil exporter, said she wanted to step down well before a general election due next September. The country's first female head of government, she has been prime minister for nine of the past 10 years.

"We are heading for a new parliamentary election and a new four-year legislature. I feel it is proper that the government's leadership and set-up be clarified well ahead of the elections," she said. She added that she would remain a member of parliament but otherwise gave little indication of her future plans.

There has been speculation that she could be a candidate to succeed Mr Boutros Boutros Ghali as secretary-general of the United Nations, but she has denied any interest and is not regarded by diplomats as a likely choice.

Although Labour forms a minority government in Norway, Mr Jagland is not expected to encounter any difficulty in gaining parliamentary approval. The opposition parties are deeply divided and can offer no realistic alternative government.

Under Mrs Brundtland, 57, Norway has prospered thanks to the oil bonanza. But she failed two years ago in an effort to win a referendum on joining the European Union. After that setback she was not expected to continue beyond the next election.

Mr Jagland, 46, is a career Labour party activist seen as standing to the left of Mrs Brundtland. He backs a continued state role in ownership of key industries, including the country's two largest banks, and is an advocate of Norway's generous welfare system.

Long-term interest rates increased and the krone weakened slightly yesterday in response to Mrs Brundtland's resignation. But Mr Jagland firmly denied he would shift policy to the left.

He stressed that he had been fully involved in economic policymaking over the past 10 years. The government's finances have been in surplus since last year and a tight fiscal policy is set to produce a further budget surplus equal to 5 per cent of gross domestic product next year.

'Long shot' for UN, Page 3

Murdoch

Continued from Page 1

vertible shares to raise money several times in the past. In 1988 News Corporation reduced the cost of holding its then 20.5 per cent stake in Pearson, the media and information group which owns the Financial Times, by issuing £147m ($229.3m) worth of preference shares convertible into Pearson shares. Almost all were ultimately converted.

AT&T picks printing chief

Continued from Page 1

Mr Walter stressed recent cost-cutting efforts at Donnelley. AT&T must have "a cost position that will allow us to grow more effectively and more profitably . . . both domestically and around the world," *he added.*

His comments come less than a week after AT&T reported a jump in costs during the summer months, and a loss of market share in its core long-distance telephone business.

It attributed this to growing competitiveness in the US telecommunications business.

Regarding AT&T's problems in holding on to its residential telephone customers, the future chairman said: "I am not deeply seated in consumer marketing. But there is nobody alive who has the requisite skills in everything AT&T is trying to accomplish."

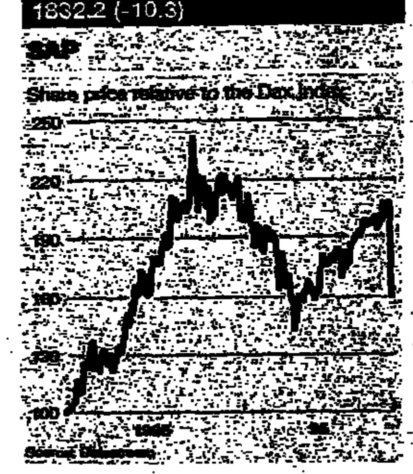
THE LEX COLUMN

Sapped strength

Three profit warnings in a year is at least two too many, even for a high-tech stock. Once again SAP, the German software group, has done nothing to discourage euphoria about its prospects – only to disappoint rudely when it comes to delivering. Yesterday's third-quarter results showed sales growth slowing to 22 per cent from 40 per cent in the first half, and an 11 per cent drop in pre-tax profits – hardly what one expects from a growth company. The 24 per cent collapse in its shares seems no more than just punishment.

But before investors log off in disgust, they should remember two things. The stock market had been getting carried away with SAP – yesterday's fall merely reverses the gains of the last two months. Second, underlying demand for SAP's type of niche business software, which allows companies to integrate management, personnel and logistics functions, is still growing at a healthy 30 per cent a year. Its smaller US rival, PeopleSoft, announced a near-doubling in sales and profits yesterday.

FTSE Eurotrack 200: 1832.2 (-10.3)



By contrast, SAP appears to have neglected its marketing and suffered as clients delayed orders. Updated products and a renewed sales effort should help it catch up; analysts still expect annual earnings increases of 30 per cent until 2000. But as the world's fifth-largest software house, with market shares of 70 per cent in the German-speaking world, incremental sales growth is becoming more difficult. SAP is falling victim to its own success.

Club Mediterranée

Club Mediterranée is becoming synonymous with sun, sand, and surprises of the unpleasant variety. Clearly tough market conditions in Europe, most recently in France and Italy, must take much of the blame for the resort operator's recently depressed performance. Nonetheless, the management talked of 5 per cent volume growth and no price cuts only last month; it now admits profits for the year will be flat. That does not inspire much confidence, hence the 18 per cent drop in its shares yesterday. After all, the FFr400m ($78.9m) profit forecast for 1997 from Mr Serge Trigano, Club Med's chairman, now looks a pipe dream.

One of the group's problems is the extent of its ambitions. Capacity has been expanding faster than demand for rooms. It is trying to counter a tough domestic environment by building resorts in faster growing regions, particularly Asia. But this looks harder to justify when the existing return on assets is below 6 per cent. Club Med says it is considering capacity cuts for next year. But until it voices a coherent strategy for countering existing weak markets, the prospective price/earnings ratio of 55, based on recurrent earnings, will look rather steep.

Nonetheless, the downside is limited by the fact that if this management does not deliver improved returns, someone else could. The group has a strong brand. And while the Trigano family exerts considerable management influence, its minimal shareholding leaves it vulnerable to outside bidders.

Emu/exchange rates

In the run-up to monetary union in 1999, Europe's politicians will have to decide the exchange rate levels at which countries join the single currency. Bureaucrats are anxious to prevent exchange rate turbulence upsetting their plans. Emboldened by the remarkable collapse in market resistance to the idea of a single currency, some favour the idea of a pre-emptive strike: why not capitalise on the spirit of the moment and announce that currencies will be fixed, on January 1, 1999, at their existing ERM central parities?

This would forestall market concerns about competitive devaluations in the run-up to 1999, and contentious argument about the correct levels. But the risks far outweigh the rewards. A central bank commitment to defend a precise exchange rate level is exactly what caused all the trouble back in 1992/93; to commit to a set of fixed exchange rate targets two years hence, regardless of events in the interim, would simply be to invite repetition.

Politicians have so far been very successful in persuading markets of their Emu agenda. Their desire to entrench this achievement is understandable, but unfeasible. It would be a cruel irony if a failure of nerve was to re-awaken foreign exchange markets just when their very quiescence is driving traders to distraction. Europe's leaders would do better to steel themselves for some exchange rate volatility, and leave markets guessing about conversion rates.

PolyGram

PolyGram's announcements are beginning to sound like a scratched version of one of its own records. Another year, another complaint about weak release schedules and weakening markets. However, the difference this time is that it has admitted the problems are partly of its own making, and it is doing something about it. Much of its $90m restructuring charge will go into revitalising the Motown record label, which has disappointed since its $301m acquisition in 1993. But Polygram is also attacking distribution and marketing costs in the tough European market, which will benefit next year's profits.

Polygram's shares have fallen 25 per cent from their peak a year ago, as profits growth has vanished. But on a ratio of enterprise value to forecast 1997 cashflow, its valuation has sunk well below UK competitor EMI, and is beginning to look sustainable. Nonetheless, its upcoming release schedule looks uninspiring, while recent data point to slowing sales growth in the global music market. So it is hard to see what will drive the shares.

One catalyst for a re-rating would be a change of heart from its 75 per cent shareholder, Philips. The parent company refused to consider selling PolyGram when it was the group's primary engine for growth. But that engine has stalled, while Philips has become more vocal in its commitment to shareholder value. So a disposal is now conceivable. And it would boost valuations for both companies.

Additional Lex comment on Emap, Page 23

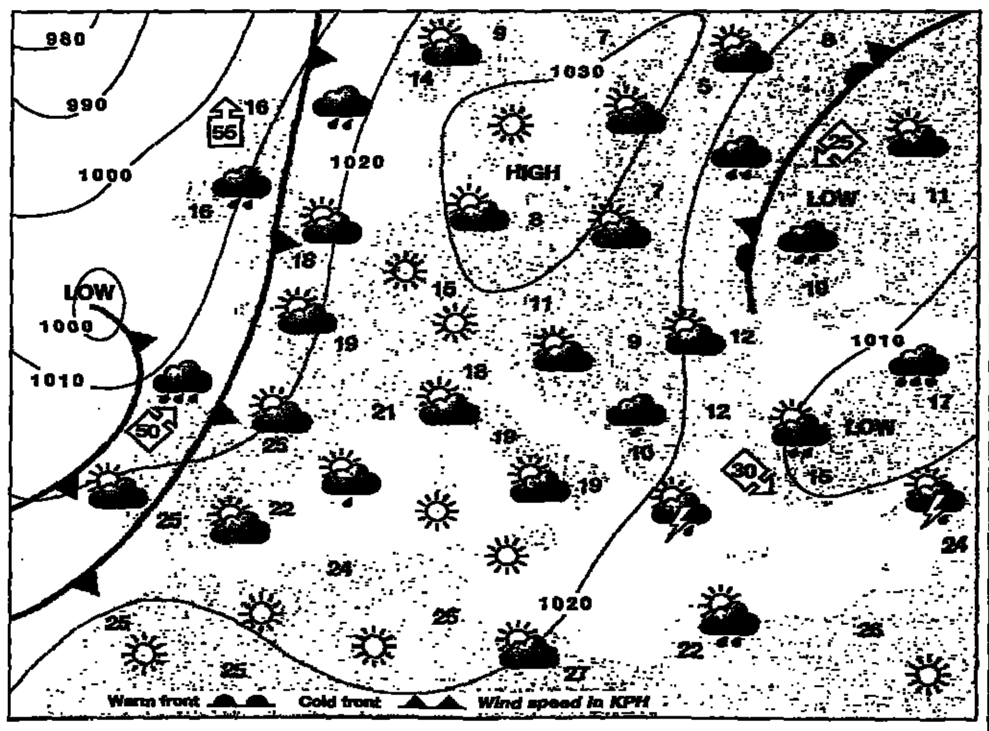
FT WEATHER GUIDE

Europe today

Cloud and rain will slowly spread eastwards across Ireland and the western parts of the UK. Eastern areas will be dry with sunny spells. High pressure over the Baltic Sea will promote calm conditions with ample sun from southern Scandinavia across the Benelux and France to the Alps and Italy. North-western Iberia will be unsettled. Cold air will push southwards across the Balkans towards Turkey and Greece, resulting in unseasonably cool temperatures. Russia and the Balkans will have rain and thunder showers develop over southern Greece and Turkey. The Turkish plains will be very cool.

Five-day forecast

The areas around the south-western Black Sea and the Aegean Sea will be unsettled and unseasonably cool. The Balkans will turn dry but will stay cold with areas of fog forming. The UK will remain unsettled with strong wind and rain at times.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	sun	34
Accra	fair	31
Algiers	sun	25
Amsterdam	fair	15
Athens	thund	17
Atlanta	sun	25
B. Aires	fair	18
B.ham	rain	17
Bangkok	fair	35
Barcelona	shower	19
Beijing	fair	16
Belfast	rain	16
Belgrade	shower	9
Berlin	fair	10
Bermuda	fair	25
Bogota	fair	18
Bombay	shower	33
Brussels	fair	16
Budapest	fair	10
C.hagen	sun	12
Cairo	sun	26
Cape Town	fair	18
Caracas	fair	33
Cardiff	rain	16
Casablanca	sun	24
Chicago	fair	13
Cologne	fair	16
Dakar	fair	31
Dallas	sun	22
Delhi	fair	32
Dubai	sun	34
Dublin	rain	16
Dubrovnik	fair	17
Edinburgh	cloudy	15
Faro	fair	24
Frankfurt	sun	15
Geneva	fair	15
Gibraltar	fair	22
Glasgow	rain	16
Hamburg	sun	14
Helsinki	fair	7
Hong Kong	sun	28
Honolulu	sun	31
Istanbul	rain	15
Jakarta	fair	32
Jersey	cloudy	16
Karachi	sun	38
Kuwait	sun	33
L. Angeles	sun	23
Las Palmas	sun	30
Lima	cloudy	20
Lisbon	fair	23
London	cloudy	18
Lux.bourg	fair	15
Lyon	fair	18
Madeira	sun	27
Madrid	fair	22
Majorca	fair	21
Malta	fair	21
Manchester	shower	16
Manila	fair	32
Melbourne	fair	18
Mexico City	cloudy	22
Miami	fair	29
Milan	fair	18
Montreal	shower	11
Moscow	rain	5
Munich	sun	15
Nairobi	fair	28
Naples	sun	19
Nassau	fair	30
New York	sun	19
Nice	fair	19
Nicosia	thund	22
Oslo	fair	10
Paris	fair	19
Perth	shower	23
Prague	fair	9
Rangoon	fair	33
Reykjavik	rain	10
Rio	fair	22
Rome	sun	19
S. Frsco	fair	19
Seoul	fair	22
Singapore	fair	30
Stockholm	sun	10
Strasbourg	sun	17
Sydney	cloudy	25
Tangier	sun	25
Tel Aviv	shower	26
Tokyo	fair	21
Toronto	cloudy	9
Vancouver	shower	13
Venice	sun	16
Vienna	fair	12
Warsaw	fair	7
Washington	fair	17
Wellington	fair	14
Winnipeg	cloudy	9
Zurich	fair	15

ZIMBABWE

Tough journey down the road of reform

Strong growth masks weak implementation of structural adjustment, while investors will be looking for greater transparency in the allocation of tenders and contracts, says Michael Holman

When President Robert Mugabe opens a foreign investment conference in Harare this week, one question is likely to be uppermost in the minds of delegates contemplating putting their money into Zimbabwe.

Why was the tender process for one of the biggest projects in the country's post-independence history circumvented, and the board that objected summarily dismissed?

The full story of the controversial sale of a 51 per cent stake in Zimbabwe's state-owned Hwange power station to a Malaysian company has yet to be told.

But the deal has dismayed other foreign companies, alarmed western diplomatic missions in Harare, and threatens to cast a cloud over the country's efforts to win support for the next phase of its economic reform programme, first launched in 1991.

Although the process so far has been painful, and progress erratic, the socialist aspirations that accompanied the sweeping victory of Mr Mugabe and his Zanu-PF party in the 1980 independence elections have been abandoned. The man who once promised to "set in motion an irreversible socialist trend" now calls for commercialisation and privatisation of state-owned enterprises, and offers a warm welcome to foreign investors.

On the face of it, the next phase of reform, set out in the Zimbabwe Programme for Economic and Structural Transformation (Zimprest) gets off to a healthy start, with the finance minister, Herbert Murerwa, forecasting 7 per cent growth for this year.

Good rains last season have boosted agriculture, the tobacco crop – the country's biggest foreign exchange earner – fetched prices that were nearly 40 per cent higher than last year, and the forecast value of the 1997 crop is over $750m.

Tourism is booming, and the mining industry is thriving, with one of the biggest post-independence investments about to pay off. When the Hartley mine, 80km west of Harare and developed by BHP of Australia, comes fully into production next year, it will provide some 3 per cent of world supply of platinum, with annual export earnings of over US$100m.

And the country's stock market has enjoyed a remarkable run. Industrial share prices are up 80 per cent so far this year, much to the satisfaction of foreign investors who have provided a net inflow of Z$1.18bn since the Harare exchange was opened up in mid-1993.

Yet encouraging though these figures are, the performance over the past five years has been far from satisfactory, as Mr Murerwa himself acknowledged in his budget address.

Inflation has averaged more than 20 per cent during the period, and the target of 5 per cent annual growth in GDP has not been achieved. Partly due to two droughts, one the worst in living memory, annual growth rate was only 1 per cent over the period. Meanwhile, the country's 11.5m population is growing at a rate of 3.1 per cent a year.

Efforts to meet budget deficit targets have repeatedly failed, and this year may prove to be no exception. The plan to cut it to 8.6 per cent of GDP in the year ending mid-1997 seems likely to fail in the wake of a recent 26 per cent public sector pay award.

Meanwhile, the pace of privatisation has been slow, and the government has had to sustain what Mr Murerwa admits are "huge losses" by the state-owned sector, amounting to Z$5.5bn.

Health and education services are coming under strain, and real per capita incomes today are little changed from their levels at independence in 1980. With an estimated 190,000 jobseekers coming on to the labour market annually, and only 15,000 formal sector jobs created each year since 1990, unemployment now stands at one-third of the workforce.

The upshot is that for most Zimbabweans, living standards have declined, life is getting harder, and doubts about the government are deepening, with the focus of concern on Mr Mugabe himself.

Re-elected in March this year for a further six-year term, and leading a party which holds 147 of the 150 parliamentary seats, the 72-year-old president holds unchallenged power, which he exercises in a manner which many Zimbabweans resent.

Aircraft from the national airline are frequently commandeered to take the president on official visits, and a mansion has been built for his new wife from a housing fund intended for senior civil servants.

While the Hwange deal focused attention on Mr Mugabe's seemingly limitless authority to intervene in commercial decisions, it was not the first time that controversy has attended Zimbabwe's tenders and contracts.

A tender awarded to Ericsson, the Scandinavian telecommunications company, to establish Zimbabwe's first cellular phone system, was cancelled after claims by the US and German governments that the procedure had not been transparent. The fresh tender was subsequently won by Siemens.

A bid for the construction of a new international airport, awarded to a Cyprus-based company linked with Leo Mugabe, the president's nephew, has also been disputed, with critics saying that the company had failed to meet the criteria for the contract.

Finance Minister Murerwa acknowledges investor worries about the tender process. "Our intention is to strengthen it...the tender board will be strengthened by making it more autonomous and giving it more teeth and greater capacity.

"With regard to the Hwange power station contract, from time to time governments have greater interests to pursue," says Mr Murerwa.

"But it does not mean that all other privatisation activities will follow the same course," he adds. "We can assure investors that we will be as transparent as possible."

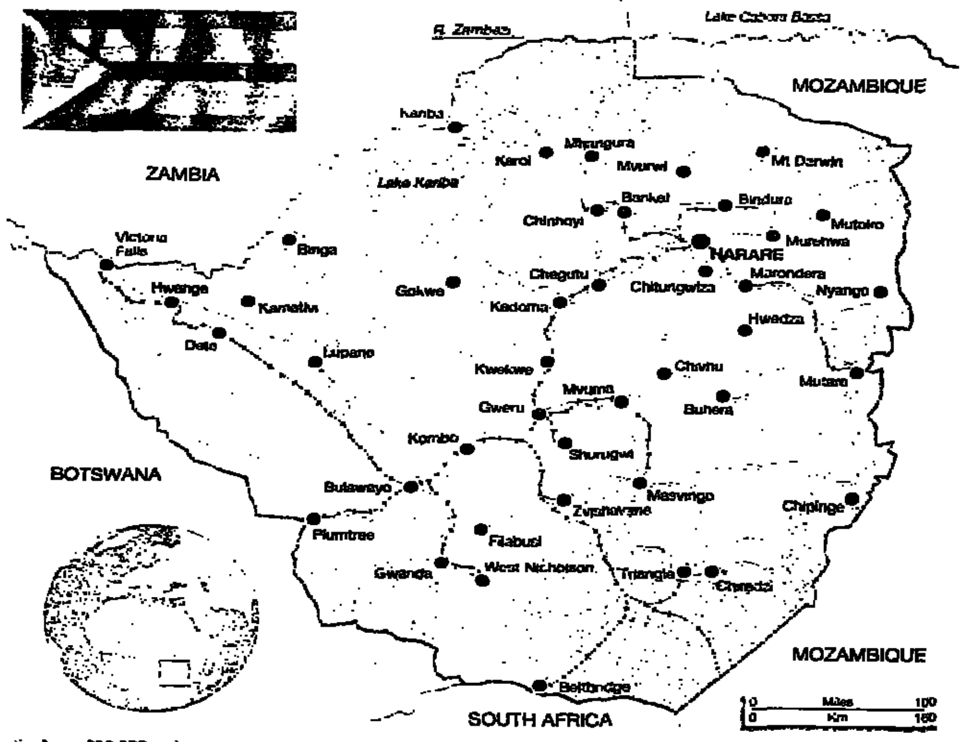
Mr Mugabe himself seems to have no doubts about the decision. "There are those who do not want to see a country like Malaysia entering our economy", he said in an interview with the Financial Times earlier this month.

"Some European donors think they alone should participate in our economy. But they are here already in a very strong way, and we want other participants as well."

In the meantime, the president has to balance domestic pressures and investor concerns over two other sensitive issues: the call to acquire some of the country's white-owned farms and distribute the land to black families, and the demand for the "indigenisation" of the white-dominated business sector.

Mr Mugabe, who has frequently raised black Zimbabwean expectations without providing practical ways in which they can be met, offers reassurance: "We do not want to disempower the whites. We want them to help create room for black participation".

Whether this is enough to satisfy the business community remains to be seen. For unless President Mugabe can set to rest the growing concern about the way his government does business, the country's reforms may not get the donor and investor support they badly need.



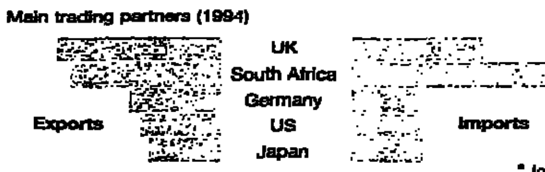
- Area: 390,580 sq km
- Population: 11.5m (1995 est)
- Currency: Zimbabwe Dollar (Z$)
  Exchange rate: Oct 16, 1996
  $1= Z$10.5487
- Main towns and population (1992):
  Harare (capital) 1,184,000
  Bulawayo 621,000 Kwekwe 75,000
  Chitungwiza 274,000 Mutare 69,000
  Gweru 125,000 Kadoma 67,000
- Languages: English, Shona, Ndbele and local dialects

Sources: Datastream; EIU; IMF; Reserve Bank of Zimbabwe

Economic summary

	1995	1996*
Total GDP, real terms (Z$m)	11,222	12,006
GNP per head (US$)	574	635
Real GDP growth (%)	-2.7	7.0
Agricultural output (annual % change)	-12.0	18.0
Industrial output (annual % change)	-8.6	8.5
Services output (annual % change)	3.2	3.2
Inflation (annual average)	22.6	22.0
Money supply, M2 (annual % change)	25.5	28.4
Foreign exchange reserves (US$m)	596	800
Gold reserves (US$m)	140	150
Foreign debt (US$m)	4,441	4,574
External debt per head (US$)	387	388
Debt service (% of exports)	25.5	24.7
Current account balance (US$m)	-350	-150
Merchandise exports (US$m)	2,050	2,275
Merchandise imports (US$m)	-1,850	-2,000
Merchandise trade balance (US$m)	200	275

Main trading partners (1994)



* forecast

Government and constitution

Head of state: President Robert Mugabe

Vice-presidents: Simon Muzenda, Joshua Nkomo

Head of state

President, elected by universal suffrage and serving a six-year term.

Legal system

Based on Roman-Dutch law and the 1979 constitution.

National legislature

House of Assembly with 150 members, 120 representing geographical constituencies elected by universal adult suffrage every five years, eight being provincial governors, ten customary chiefs and 12 others appointed by the president.

Next elections due

April 2000 (legislative), March 2002 (presidential)

National government

The president and his appointed cabinet.

Main political parties

House of Assembly (150 seats)

Zimbabwe African National Union-Patriotic Front (ZANU-PF) 147 seats
Zimbabwe African National Union-Ndonga (ZANU-Ndonga) 2 seats
Independent 1 seat

Zimbabwe Unity Movement (ZUM); Forum Party of Zimbabwe (FPZ); United Parties (UP); Front for Popular Democracy (FDP); Democratic Party

IN THIS SURVEY

Production Editor: Ian MacDonald

■ Interview with President Robert Mugabe: by **Michael Holman** and **Roger Matthews**

The IMF's medicine causes us concern

What are your concerns about the application of IMF and World Bank policies to Zimbabwe?

It is more the medicine prescribed by the IMF rather than the World Bank which gives cause for real concern, and not just for us. It is the same prescription for everybody. True, the rules are the same if you are to liberalise. But the application must differ according to the socio-economic circumstances.

When we began here in 1980 we had a difficult situation. The economy had deteriorated very badly and we first had to establish a correct political environment. That meant pursuing policies of national reconciliation. We became members of international organisations and lined up, like everyone else, in terms of assistance from the World Bank and IMF. Our first experience of the IMF was quite an uncomfortable one.

My officials in finance were told by the IMF that we could not educate everyone. That we had to look at our budget and see what we could and could not do. I suppose that was correct on the face of it. But as a result of the protracted war, and the policies followed by Ian Smith [the former prime minister of Rhodesia], lots of young men had missed out on their education. You could not, therefore, tell them to wait for some time until we have the resources.

The guiding principle had to be education for all. Still, the IMF thought we were too ambitious, and we should not really pursue that policy of educating everyone at the same time until our resources had improved. But it was evil to follow a policy which condemned some children to perpetual ignorance. At the end, about eight years ago, the IMF came back to us and said we were right after all.

Education, defence and health were the three ministries which took up probably two-thirds of our budget. South Africa was attacking us, almost on a daily basis, and we therefore could not be persuaded to reduce our army. It was necessary for us to build up our capabilities to defend our nation and our independence. And we survived as a nation, but obviously we spent quite a lot of money doing that. Health remains very demanding, even more now with the high rate of Aids.

President Mugabe: The land programme 'is a problem of resources, and colonialism dies hard. Some farmers do not want to part with their land'

But the IMF wanted us to pursue a policy that just sets the principle and not overspend on any area because that meant a budget deficit and you had to borrow. The IMF said we were overborrowing, but we had to do that. We carried out our reconstruction programme after the war and embarked on our first and second redevelopment plans. In about 1983, because of our disobedience, the IMF abandoned us.

Later they looked again, saw some of the things we were doing were correct, and said they wanted to work with us again. For a year or two things went well, but now they are again saying our spending is too high, the amounts we borrow are too high, and we should reduce our budget expenditure. But a developing country like ours, with limited resources, must necessarily pursue policies of a social nature that require government financial backing. No one can attend to the health and education of our people better than the government. So they are saying we spend too much. But the World Bank has always been happy with our programmes. They help us with a lot of projects, and we do not default on our payments.

What are the prospects for privatisation?

That is one area where the IMF is not happy. I was in Romania a few months ago where everything used to be state-owned. They have a privatisation programme but it has not gone beyond selling 40 per cent of state assets. So 60 per cent remains with the state. But Zimbabwe was always capitalist.

We brought in the philosophy of socialism, at one time Marxism-Leninism. But we looked at the situation and said we would not interfere with the existing system. We decided socialism would have to be introduced by persuasion and not imposed on the people. The only socialist policies that, in fact, we were able to carry out were education and health for all. We also assisted workers to become organised and introduced a minimum wage. But apart from that we did not interfere in case it damaged productivity. We have been highly privatised from the beginning.

So what privatisation are you talking about? There is the public sector where there are a few enterprises. It is that small area which people are looking at. There are already 400 British companies operating in the country, along with South Africans, Americans and Germans.

So Zimbabwe is highly privatised. What we have done is establish a cabinet committee to look at parastatals and recommend which could be considered for commercialisation, or outright privatisation. Sooner or later we will be able to say how things will be handled, perhaps in partnership with chosen companies.

Is the decision to sell a stake in the Hwange power station to YTL, the Malaysian power producer, an example of the privatisation process?

That, possibly, is not exactly what I had in mind. Take airways, for example. Why should we ever go to tender? If we look at the various operators and choose, say, British Airways, or the Swiss airline, as the best partner for us, then we can say let us run it as a joint venture. But then there are others we would have to put on sale. They are in the manufacturing sector. Ian Smith took over various companies he feared would collapse, and we addded some of our own. So when you talk of commercialisation and privatisation it is this small sector.

But, as we undertake this process we want to use it as an instrument for empowering the indigenous people. What we inherited was a system in which the blacks were by and large workers, and the whites were the employers and entrepreneurs. We want to see blacks go into the manufacturing sector. We are worried that manufacturing, mining and property ownership generally is dominated largely by whites. We do not want to disempower the whites. We want them to help create room for black participation.

Part of this can be done through privatisation. We are creating an investment trust fund. If we sell a parastatal, for example Hwange, the shares that we sell to YTL should yield funds that we can use for purposes of empowering blacks. They can also be used to assist the creation of new companies. The criticism of the Hwange sale has been made by those who wanted it, but did not get it. And there are those who do not want to see a country like Malaysia entering our economy. Some of the Europeans think they should be the only ones. We were also looking at a financial package and for partners beyond those which we have already.

In some cases we will just take an official position and say, for example, we prefer the Japanese. There is no reason to cry foul because that is our position.

What progress has been made on the land resettlement programme?

There is the problem of resources, and colonialism dies hard. Some of the farmers do not want to part with their land. We found it necessary to have a law to take over the land whether or not they were willing sellers. But in doing that we do not intend to be unfair. We have said we are prepared to pay for improvements they have made to the land. But they are also looking for the market price of the land, and because of our inability to pay for the land in that comprehensive way we have approached the British. We reminded them of their commitment in 1979 that they would help us with the resettlement programme. They are considering their position, provided we acquire land on a willing seller/willing buyer basis.

What is the possibility of reviewing the constitution in relation to human rights provisions?

A debate on the constitution in regard to what the people wish, I would personally agree to. But purely to look at human rights would presume that the constitution fell short on that issue. It already goes well beyond many other constitutions. It was one we inherited from Britain.

There have been accusations that the ruling party has become autocratic and corrupt. How do you react to this and to indications of voter apathy at the last election?

People would not waste time going to vote if those who had committed themselves to participate (as candidates) then withdrew. We are very, very democratic in this country. People respect me, but they are not frightened of me. We do not arrest people arbitrarily. We have set principles that must be adhered to. We fought a struggle and made sacrifices. I would hate myself if I discovered my people regarded me as an oppressor or autocratic. The system we have allows as much freedom for an individual as possible. We do not just tolerate the whites, we accept them.

■ **Politics** • by Michael Holman

Remarkable gains of the early years are being eroded

An overwhelming presidential victory for Mr Mugabe has a hollow ring

Nearly 17 years after the end of minority rule, the fruits of independence are starting to turn sour for many Zimbabweans.

Rising unemployment, high inflation and deteriorating social services are eroding many of the remarkable gains of the 1980s, when educational opportunities for black Zimbabweans expanded dramatically, and health facilities in the rural areas were radically improved.

One sign of growing dissatisfaction was the recent civil service strike, and although an extra 26 cent pay rise brought a return to work, further disruption may well take place in the coming weeks.

But, above all, doubts about the integrity of Zanu-PF, the ruling party which has dominated the country's political scene since its sweeping victory in the independence election in 1980, are leaving the country's electorate disillusioned.

The mood was reflected in the presidential poll in March this year. Robert Mugabe won a comfortable victory, giving him a further six-year term until 2002, by which time he will be 78.

But there was little cause for satisfaction. While he secured 97 per cent of the votes cast, only one-third of the electorate bothered to turn out in what had become a one-horse race.

His two challengers, Bishop Abel Muzorewa and the Rev Ndabaningi Sithole, both pulled out, alleging electoral irregularities. Even if they had continued to campaign, however, neither man represented a credible alternative to Mr Mugabe.

Bishop Muzorewa, who briefly led a discredited interim government before majority rule, has little popular support. Mr Sithole, who lost the leadership of Zanu to Mr Mugabe while both men were political prisoners in the pre-independence era, was once a formidable figure, but age and ill-health have taken their toll.

Other more substantial figures, such as Enoch Dumbutshena, a former chief justice and leader of the Forum Party, declined to take part from the start. Most other critics of Mr Mugabe, within and outside the ruling party, tend to keep their heads below the political parapet for fear of retribution.

Rebels within Zanu-PF get short shrift, as Margaret Dongo, the 36-year-old independent MP, discovered when she raised the issue of corruption, and was soon expelled from the party.

Meanwhile, Zapu – the Matabeleland-based party that is Zanu's junior partner in a coalition it reluctantly agreed to in December 1987 – has been subsumed by its powerful partner.

Although this has ended a party rivalry that goes back to the split in the nationalist movement in 1963, it remains highly unlikely that former Zapu politicians would be in the running to succeed Mr Mugabe.

A more pressing leadership question involves the heir to Joshua Nkomo, Zapu's erstwhile leader, who is one of the country's two vice-presidents.

Mr Nkomo, whose political career stretches back more than 40 years, is now in his late seventies and is ailing. The political ambitions of his lieutenants, including two of the potential successors, Dumiso Dabengwa, minister of home affairs, and John Nkomo, minister of local government, seem to have been satisfied by Mr Mugabe's judicious allocation of cabinet places.

Though Mr Mugabe shows little sign of losing his relish for the job, there is speculation as to who would fill his shoes if he did not serve the full term in office.

Most observers believe his successor would come from one of the two powerful Shona "clans", the Zezuru (to which Mr Mugabe belongs, and who make up about 18 per cent of the population) or the Karanga (about 22 per cent).

Backed by the predominantly state-controlled media, and subsidised by state funds, Zanu-PF continues to dominate the political scene, holding 147 of the 150 parliament seats.

With a a total of 49 government posts, including 27 ministers, drawn from its ranks, the chamber is seldom a lively forum for debate.

Much of the press, as well as radio and television, are effectively under government control, though there are some lively exceptions, including The Zimbabwe Independent.

Launched in May this year with Mr Trevor Ncube, formerly with The Financial Gazette, as editor, it has played a courageous role in exposing wasteful government spending and political patronage and corruption.

Meanwhile, Mr Mugabe continues to make the most of two populist issues – land redistribution and "indigenisation" of an economy still dominated by the country's white minority.

Although their numbers have fallen to around 80,000 from the pre-independence peak of 275,000, those that remain still control most of commerce and industry, and nearly all the 4,000 or so commercial farms are white-owned.

The government is vulnerable to criticism from its supporters on several counts, but most notably over land. When taking office in 1980, land reform was central to its platform, which pledged to resettle 172,000 families in the first decade, but only 67,000 have moved so far.

But it seems clear that the cash-strapped government, battling to trim the budget deficit, has not the resources for the purchase of land and the building of infrastructure – clinics, boreholes, access roads, cattle dip tanks and so on – that a resettlement process requires.

Nor has the government made much headway in responding to calls for greater black Zimbabwean involvement in the business sector, led by Roger Boka, one of the founders of the Indigenous Business Development Centre, and whose advertising campaign has sometimes bordered on the racist.

In theory, the privatisation programme could be part of measures to provide greater black ownership, either by allocating part of the proceeds to an investment fund established with that purpose, or through allocations of shares to employees and members of the public.

But the government has so far made little progress in developing a black empowerment programme, and many businessmen fear that the divestment of state corporations may turn out to be another exercise in government patronage.

The economy • by Tony Hawkins

Progress on reform is falling short of targets

Satisfying fundamental targets for meeting 5% annual GDP growth would be difficult under ideal conditions; actual conditions present a formidable challenge

Six years after the launch of Zimbabwe's *economic structural adjustment programme* (ESAP), the report card on *economic reform is decidedly* mixed. Virtually all the original macro-economic targets – output and export growth, inflation rate, foreign borrowing, the budget deficit – were missed, often by wide margins.

"Contrary to programme targets", says Zimbabwe's new draft programme for Economic and Structural Transformation (Zimprest), "the economy barely grew over the *programme period*, real incomes fell, and unemployment and under-employment continued to escalate."

But major improvements in the policy environment were achieved with the liberalisation of the foreign payments system and the domestic money market, deregulation of agricultural marketing, partial *deregulation* of the labour market, and stock market investment and, modest, though still inadequate, improvements to the regulations governing foreign direct investment.

As elsewhere in sub-Saharan Africa, four major flaws explain the relatively disappointing track record:

- The failure to come to grips with public sector reform. Privatisation is only now being tackled, and then in the most ambivalent and confused manner. The budget deficit, targeted to fall to 5 per cent of GDP by 1995, exceeded 10 per cent in 1995-6 and, on present trends, seems unlikely to fall significantly – if at all – in the current year.

The reform programme target of a 25 per cent reduction in the *civil service* (excluding education and health) was narrowly missed, and *while the government* met its target of reducing the public service *wage bill* from 17 per cent of GDP to 13 per cent by forcing down civil service real wages by some 40 per cent, this strategy has since backfired, culminating in August's public service strikes and a 26 per cent wage award.

The public sector wage bill absorbs 31 per cent of *government spending*, and there is widespread dissatisfaction with the quality of public services being provided;

- Deteriorating institutional capacity: the muted response to policy reform is partly explained also by the administration's *inability to implement* its policies effectively. Tariff reform, new financial sector legislation, parastatal commercialisation, the launch of export processing zones, and the creation of the proposed *tariff*, securities and exchange and monopolies commissions are all running years behind target.
- The industrial policy vacuum. Although manufacturing was targeted to spearhead economic growth during the reform programme, industrial output fell to a 10-year low in 1995. Industrialists complain that the country is being de-industrialised as manufacturing's share in GDP falls in the face of fierce competition from imports, especially from South Africa.
- Policy ambivalence; *although the government* claims to favour foreign investment, it is also committed to *indigenising* the economy and increasing black ownership and participation. Privatisation is on the agenda, but at the same time the state says it wants to buy shares in foreign-owned mining houses. South Africa's Anglo American Corporation agreed recently to sell the state a minority *stake in its Bindura Nickel* Mining Corp.

These serious problems notwithstanding, there is nothing in the Zimbabwe economy that rigorous implementation of rational economic policies could not cure. Zimprest sets out three basic preconditions for attaining its minimum *growth target of 5 per cent* annual GDP growth:

- a consistent reduction in the budget deficit from over 10 per cent at present to 3 per cent by the year 2000, through action on the revenue as well as the expenditure front:
- *A sustained improvement* in investment, lifting the investment/GDP ratio to at least 25 per cent – an increase of about one-third in dollar terms to around US$2bn annually. With government able to finance less than a quarter of this, private sector investment, and especially *foreign investment will have to increase* significantly over the next five years.
- Export growth of 7 per cent annually.

Even under ideal conditions, satisfying these three fundamentals would be difficult enough. *But the challenges* are formidable from a starting point of: high taxation; a public sector debt trap; deep-seated public sector dissatisfaction with wages and working conditions; mounting demands for greater action on indigenisation and land resettlement policies; calls for increased *government spending on* defence, housing, education and health; and an increasingly vociferous industrial lobby, pleading for lower tariffs and taxes on imported inputs and greater protection against imports.

Such targets will be met only if the country enjoys substantially more *favourable weather conditions and* commodity prices and if the administration experiences radical culture change.

Sooner or later, some economic hard truths will have to be acknowledged. The fiscal situation is simply unsustainable. In his July budget, finance minister Herbert Murerwa projected a *deficit* of 8.5 per cent of GDP in the current year to mid-1997. The subsequent 26 per cent public sector wage award has punched a huge hole in that forecast, pointing to an unchanged deficit of around 10 per cent per cent.

This is being funded largely by domestic borrowing. Central government borrowing surged 43 per cent in the 1995-6 fiscal year to Z$53bn (81 per cent of GDP). The Treasury Bill issue has more than trebled from Z$6.6bn in mid-1995 to over Z$23bn early this month. *Much of this represents* open-market operations designed to mop up excess market liquidity rather than fund public spending.

Whatever the motivation the cost to the taxpayer is enormous – 30 per cent of government spending and 10 per cent of GDP. Zimprest notes plaintively that once *wages* (31 per cent of the budget) and interest charges are taken into account, there is precious little left over for "discretionary" spending.

When parastatal borrowing is factored into the equation, public sector debt exceeds GDP and although the debt ratio will decline this year, reflecting real GDP growth of some 7 per cent, the medium-term outlook is unsustainable. One possible solution is the sale of assets, using the proceeds to repay debt, but with the government keen to link privatisation with indigenisation, the debt-reduction option is not on the table.

Business optimism that, after six years in which inflation has averaged 26 per cent, the government is now on top of the situation, is not shared by the monetarists who point to rapid money supply growth of between 30 *per cent* and 48 per cent (depending on which monetary aggregate is used) so far this year, a depreciating Zimbabwe dollar which will impact on prices next year and rampant asset-price inflation.

The juxtaposition between industrial production down 15 per cent from its 1991 peak and industrial share prices up 150 per cent since 1991 and 80 per cent so far this year underlines the extent of the divergence between the real and monetary economies. As interest rates have fallen from 30 per cent for 90-day Treasury Bills in January to 20.2 per cent this month, so money has flooded into the equity, market driving up share prices.

In recent weeks the *authorities have found themselves* facing two directions at once – seeking to tighten their grip over money supply while simultaneously encouraging interest rates to fall. Although money supply growth far exceeds its 21 per cent target, the Reserve Bank last week cut its rediscount rate for the second time in as many months to 27.5 per cent. That this should be seen as an inappropriate response at a time when wage awards are averaging 25 per cent or more and when the excess liquid assets of the banks and building societies are standing at Z$10bn (14 per cent of GDP) is little short of astonishing.

> Real per capita incomes are little changed from those of 1980

The balance of payments position is healthy, with a substantial trade surplus of US$275m forecast for 1996, which along with net capital inflows of some US$250m will ensure a modest overall balance of payments deficit of around US$50m. Export growth is forecast to accelerate next year to around 15 per cent as the BHP platinum mine comes on stream and tobacco and gold earnings continue to increase.

Until very recently, the currency was underpinned by net currency inflows, and in the first half of the year the real exchange rate is estimated to have appreciated some 15 per cent. The Zimbabwe dollar has *since* weakened, falling 4 per cent in the last three months, but the currency is now significantly overvalued and further depreciation will be necessary if export-led growth of manufactured goods is to be achieved.

GDP growth this year of around 7 per cent will lift the post-reform average to a disappointing 1.6 per cent a year – about half the population growth rate. Indeed, real per capita incomes today are little changed from their levels at independence in 1980. With an estimated 190,000 jobseekers coming onto the labour market annually and employment growth of a mere 15,000 jobs a year since 1990, unemployment, estimated at around 33 per cent has reached crisis proportions.

Sadly, there is little evidence – until Zimprest – of any coherent strategy to tackle the unemployment problem. The administration's apparent faith in a melange of land redistribution, indigenisation, tight curbs on skilled immigration, an overvalued exchange rate and increased industrial protection as the solution to unemployment illustrates just how little it has learned from east Asia's *export-driven experience*.

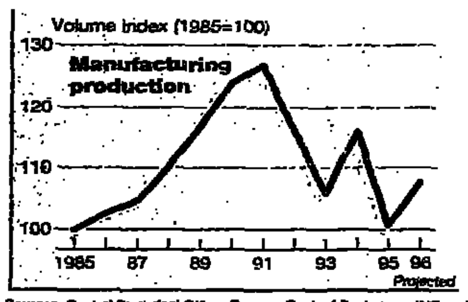
Given the disproportionate impact of drought on the economy and forecasts that the country can expect at least one drought every three years, the Zimprest growth target of 5 per cent annually seems realistic. But even that will remain out of reach unless and until the *government gets serious* about the budget deficit and public sector reform. Nor will the restoration of macro-economic stability be enough so long as the paranoia over the import of skills and foreign capital inflows prevails in high places.

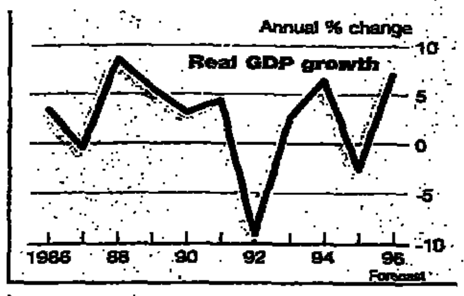
Above all, the sharp deterioration in South Africa's economic outlook threatens Zimbabwe's future growth prospects. A sick South African economy will damage growth prospects for the entire region, destroying hopes that Pretoria will provide the catalyst for regional economic resurgence.

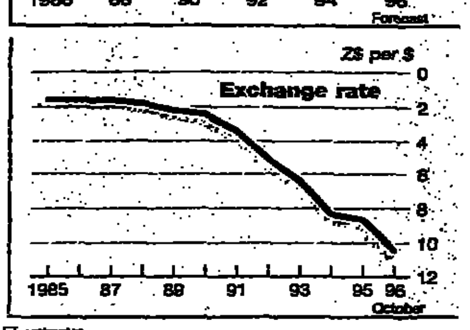
Key factors

Balance of payments (US$m)

	1994	1995	1996 Forecast
Exports	1,918	2,050	2,275
Imports	1,707	1,850	2,000
Trade surplus	211	200	275
Net invisibles	-477	-500	-575
Current account	-266	-300	-300
% of GDP	5.0	4.75	4.0
Net capital	535	360	250
Overall balance	269	60	-50







Sources: Central Statistical Office, Reserve Bank of Zimbabwe, IMF and FT estimates

Herbert Murerwa: the finance minister has a target of a 17 per cent inflation rate by next June

Interview with Herbert Murerwa

Good rains boost growth prospects

The finance minister talks with Michael Holman and Roger Matthews

What are the growth prospects for the financial year ending on June 30 1997?

We had good rains last year and this has greatly improved the outlook as agricultural output was up and this impacts favourably on the manufacturing sector. So we are estimating real growth of about 7.1 per cent. This may be optimistic and I would be quite happy with 6 to 6.5 per cent. But the target is still 7.1 per cent. This would be one of our best performances since 1980.

***How are you tackling* the budget deficit and the impact of the recent civil service pay rises?**

We had hoped that the measures we had taken would reduce the budget deficit from 10.7 per cent (of gross domestic product) to 8 per cent. We are in the process of trying to work out *the impact of the wage settlement* on the deficit, but it will certainly not improve it. It will adversely affect it.

Initially we will look through the spending plans of ministries to see what activities can be postponed or can be cut. But there is not a great deal of scope because we are already on a very tight budget. We are also looking at the rationalisation of the public service. There is a programme in place to review public enterprises which includes commercialisation and privatisation. We believe there can be some savings there. Some enterprises have become profitable but many others are making big losses.

We have had good discussions with the IMF and they have an understanding of these kinds of dilemmas. There is appreciation of the problems Zimbabwe has had with the drought. They understand if you have riots in the street you cannot implement some policies. We are committed to reduce the deficit and have already taken action on reducing numbers in the public service. The civil service has been cut from 190,000 to 161,000 and the size of the army has also been cut from 60,000 to 41,000. And we are looking for further reductions

But it is not an easy problem. You cannot simply put people out on the street. We have to be able to find alternative programmes for them so that they can be retrained and re-equipped to do other things. The European Union has been *helping us to investigate* the possibilities, especially with soldiers who have been laid off so they can be productive. We will also be talking to the private sector to see whether it can put in place a programme to absorb some of those who have been retrenched from the public service.

But *reducing* the budget deficit is a top priority as servicing overall government debt absorbs some 35 per cent of our revenue. I have estimated that the exchequer will receive some Z$1bn from privatisation this year, and am very pleased with the Hwange power station deal with Malaysia *because those proceeds* will be in addition to those which I had already budgeted. We have not yet decided *what* proportion will go to reducing official debt.

What is the outlook for foreign investment and its relationship to the indigenisation programme?

Our efforts to liberalise the *economy* and provide incentives for investors do not necessarily conflict with the *indigenisation* programme. On the contrary, we hope that a surge of new investment will enhance the process of indigenisation. We offer cast-iron guarantees to investors and have signed a number of multilateral agreements. We hope that indigenisation will take the form of a partnership with investors, especially in the manufacturing sector.

What are you doing about the tendering process?

Our intention is to strengthen it, and plans are already on the way. The tender board will be strengthened by making it more autonomous and giving it more teeth and greater capacity. The attorney general is working on the documents. With regard to the Hwange power station contract, from time to time governments have greater interests *to pursue*. But *it does* not mean that all other privatisation activities will follow the same course. We can assure investors that we will be as transparent as possible. It is our intention to strengthen the tender process.

What is the outlook for inflation?

It has been coming down, falling to about 17.7 per cent and we think it will probably stabilise at 20 to 22 per cent before falling again. Our target is 17 per cent by next June.

When will you be removing the remaining foreign exchange controls?

We have been making progress and will *continue* to do more. We are increasingly looking at the region as a whole and wish to work in concert with others to remove any outstanding impediments. I think we have the measures in place, but cannot say at the moment exactly what the governor of the reserve bank *has in mind*.

Is there any progress on the liberalisation of the economy?

Market forces pretty much dominate the economy and will do so more in future. We have already taken measures to remove price controls, to improve labour relations, to allow free bargaining, and to open up the stock exchange. This is on the way to being a self-sustaining process. We *are looking at other incentives* to stimulate the private sector, and at tariffs, and *believe this will help exports* and encourage the emergence of new enterprises. Of course, much depends on how we address the fiscal imbalance which in turn should lead to lower interest rates. This should help small and medium-sized enterprises, because that is where we hope the new jobs will *come from*.

■ **Agriculture** • by Roger Matthews

Clouds of plenty, clouds of doubt

Redistribution of land to benefit black farmers remains an elusive target

Black clouds have been hanging over Zimbabwe's farmers during the past year, some welcome, some not. Those clouds with the silver lining produced the most plentiful rain for several years, leading to bumper crops and a 13 per cent rise in agricultural output.

The others, which have been around for over 15 years, are more political than economic. The shadow they cast is over the future of farm ownership and the government's desire to redistribute more land and settle more people on it.

Although agriculture accounts for only about 15 per cent of gross domestic product, it plays a vital role in the nation's economic health. Zimbabwe is generally self-sufficient in food, but a severe drought can have a devastating impact on the nation's overall economic performance.

When it did not rain much in 1992, the economy shrank by nearly 6 per cent. When it rains well, as it did last summer, the economy is likely to grow by something over 6 per cent. The government is forecasting GDP growth this year of just over 7 per cent, based in large part on the improved water levels in reservoirs and long-range weather forecasts. The industry is also blessed by diversity, ranging from traditional grain crops, such as maize and wheat, to tobacco, cotton and coffee, and including beef, dairy and pigs. To this must now be added a burgeoning horticultural sector with a strong export performance.

Few farmers can ever escape the vagaries of the weather, but at least they may be able to elude the clutches of government. That, at least, is the hope of Zimbabwe's biggest commercial farmers, the great majority of whom are white.

When President Robert Mugabe came to power in 1980, following independence from Britain, one of his key policy objectives was the redistribution of land. It still is. But, as he admits, the implementation of this socialist goal has proved frustratingly elusive. Somewhat surprisingly, it is to the British government that he is now looking for assistance to revive one of his more cherished goals.

The government has two main constraints. First, it is loathe to expropriate commercial land on a large scale because of the devastating affect such a policy could have on domestic and foreign investor confidence. Second, with a budget deficit running at over 10 per cent of GDP and the IMF looking over its shoulder, it has virtually no cash to purchase land on the open market.

Such restraints do not help for clarity in establishing policies, as the document prepared for a visiting British government team reveals. When Zimbabwe became independent, Britain agreed to provide development assistance, which included land reform. Not all of that money has been disbursed, and the Zimbabweans are hoping there could be additional sums in the pipeline.

The government's policy document spells out the injustices that existed in 1980, with 6,000 white farmers owning 45 per cent of agricultural land, much of it predictably in the areas with the best rainfall. Meanwhile, some 700,000 black peasant farmers eked out a living on another 50 per cent of land with low rainfall and little potential. The other 5 per cent of land was tilled by 8,500 black farmers.

Much of the prime agricultural land remains in the hands of white farmers, who say women are particularly efficient in the horticulture sector

Panos Pictures

The document also charts how little success government efforts met in seeking a more balanced distribution of land during the first 11 years of independence. Based on the principle of willing seller-willing buyer, the government's financial restraints led to it acquiring mostly poor-quality land which was far from the congested communal areas most in need of a resettlement policy.

So, in 1992, it passed the Land Acquisition Act, which set as a primary objective the acquisition of over 11m hectares, with the government seeking to base compensation on the improvements carried out by farmers, rather than the market value of the land. However, successful opposition by the affected farmers, and the continuing problem of finance, meant that by the end of last year only just over 20 of the more than 100 farms designated for acquisition had actually been purchased.

The government is now seeking additional measures. It wants large-scale commercial farmers to "assist" by sub-dividing farms and selling off parts: it is considering the introduction of an agricultural land tax: it is looking into financial concessions for indigenous farmers: and it is pondering a new ruling that would limit individual ownership to a single farm. At the same time, the government may introduce legislation prohibiting foreign ownership of commercial farms, except when related to an agro-based industry, or is vital to some other form of investment.

Despite the apparently threatening undertones of the policy objectives, existing commercial farmers admit to being more relaxed, though not complacent, about their futures than for some time. In part that is because the government and ruling party have been unable to follow through their political rhetoric.

The Commercial Farmers' Union was not consulted by the government when the latest policy framework was drawn up, but the main thrust of its response will continue to be the need to maintain sustainable development. This is particularly aimed at Zanu-PF suggestions that senior government officials and army officers, about to receive substantial sums on retirement, could be in a strong position to acquire farms. Whatever the strength of his political commitments, Mr Mugabe can also be a pragmatist, and he is aware of the potential risks to agricultural production.

These risks are exacerbated by Zimbabwe's very high real interest rates, and more than 80 per cent of agricultural debt has a maturity of less than 12 months.

But as a political and social issue, the need for more equitable land redistribution will not go away. British government help, even if forthcoming is likely to be tied to the principle of willing buyer-willing seller, and its impact correspondingly modest. Mr Mugabe will have to look elsewhere for additional funding, he could yet find that privatisation has its attractions.

■ **Profile: tobacco** • by Tony Hawkins

One more bumper season

Poor crops in Brazil, China and the US boosted demand and prices for Zimbabwe tobacco this year, resulting in a 35.6 per cent increase in average prices. Flue-cured leaf sold for an average of 294 US cents a kilogram this season – the second highest price ever – and with output up fractionally at 201.5m kg, gross receipts rose 40 per cent to a record US$592m.

The bull market seems set to continue for at least another year. Output is forecast to increase 17 per cent to around 235m kg, and with prices likely to average at least 320 cents, the 1997 crop could be worth over US$750m.

Fears that the market would be disrupted by the 10 per cent auction floor turnover tax proved unwarranted. Leaf prices fell sharply when the tax was imposed, but soon recovered as demand increased following natural disasters in other tobacco-growing countries.

While the growers are continuing to press the government to reduce, if not abandon, the tax, they are unlikely to make any headway under current market conditions. Only when oversupply reappears – as is inevitable – is the government likely to be sympathetic to industry demands.

Tobacco is the country's top export, worth Z$4bn in 1995 and accounting for 22 per cent of the total. Tobacco exports this year are expected to increase 25 per cent to more than Z$5bn.

The flue-cured tobacco market is notoriously volatile, and the swing from shortage to glut can be very sudden, as in 1991-92 when the Zimbabwe auction floor price halved from a record 325 US cents a kilogram. Growers expect global supply to respond to the current world shortage in 1997-98, but most analysts believe Zimbabwe will enjoy at least one more bumper season before prices go into reverse.

Tobacco output and prices

	Output (Kg m)	Average price (US cents/Kg)	Value (US$ m)
1990	134	265	355
1991	171	325	556
1992	201	160	322
1993	218	124	270
1994	169	173	292
1995	199	212	422
1996	202	294	592

Source: Zimbabwe Tobacco Association

Tobacco leaf prices have been boosted by natural disasters elsewhere

■ **Equities** • by Tony Hawkins

Market has some 'mad bull disease'

Establishing the precise reason for this year's boom may prove to be a tricky task

With industrial share prices up 80 per cent so far this year, Zimbabwe's stock market is in the throes of what one waggish market commentator calls a bout of "mad bull disease".

Those who bought industrials when the market slumped to its year low of 2,907 in March 1995, in the wake of the 1994-5 drought, are currently sitting on handsome capital gains of 145 per cent in nominal terms, or 110 per cent in real terms.

At first sight this is difficult to fathom. After all, industrial production fell to a 10-year low in 1995, and was up a meagre 1.2 per cent in the first half of 1996. In spite of this, equities have been re-rated, with the price-earnings ratio doubling from 7.5 early in the year to over 15 in mid-October.

The most obvious explanation is monetary. Market liquidity is at record levels: the 90-day Treasury Bill rate has tumbled from 30 per cent early in 1996 to just over 20 per cent early this month; investors responded by piling into equities, driving the Industrials Index up almost 30 per cent over the past two months.

The extent to which the stock market boom reflects asset price inflation rather than investment fundamentals is difficult to assess.

In real terms – adjusted for inflation – industrial share prices today are 25 per cent below their December 1990 levels. Industrials in real terms, however, are at their highest level for five years, which some analysts believe to be justified in spite of the 20 per cent fall in the volume of industrial production over the same period.

Since the equity market was opened up to foreign investors in mid-1993, there has been a net inflow of foreign portfolio investment of Z$1.18bn.

But foreign buyers have either misjudged the 1996 bull run, or taken the commonsense view that in so narrow and volatile a market, with an overvalued Zimbabwe dollar, discretion is warranted.

As a result, net foreign buying has virtually ground to a halt, slowing from US$68m in 1994 to US$62m last year, and less than US$7m so far in 1996.

This comes against a background of official efforts to boost foreign buying by raising the ceiling on foreign participation on the Zimbabwe Stock Exchange (ZSE) to 40 per cent from 35 per cent last month and allowing individual investors to hold up to 10 per cent in any one listed company.

At current levels, the market appears to be discounting both lower inflation and substantially-higher corporate earnings as business recovers from the 1994-5 drought.

Investors are highly sensitive to climatic considerations; if there is normal rainfall in 1996-97 – the long-range forecast suggests this should occur – the bull run will get a new lease of life early next year. If, on the other hand, the central bank's renewed – if less than convincing – efforts to curb money supply growth are successful, the asset-price inflation element in the market should weaken, allowing real economy influences such as earnings and dividends to assert themselves.

The influence of monetary factors is underlined by the differential between the industrial and mining markets. Although the mining industry is booming – unlike manufacturing – mining share prices are no higher today than at the end of last year, falling some 20 per cent in real terms. However, because only seven mining companies are listed on the market, the index is not a particularly reliable indicator.

During 1996, the ZSE's market capitalisation has more than doubled from US$2bn to US$4.3bn, though this is much distorted by the listing of Ashanti Goldfields following its take-over of the ZSE-quoted Cluff Minerals. Ashanti's market capitalisation of almost US$1.4bn accounts for some 60 per cent of the increased total. The ZSE is now sub-Saharan Africa's second largest market after South Africa.

■ **Profile: horticulture** • by Roger Matthews

Flower trade with Europe is blossoming

While Zimbabwe's big commercial farmers have in the past few years suffered drought and the threat of expropriation, their younger brothers in horticulture have been reaping unexpected harvests. The production and marketing of cut flowers, high-value vegetables and fruits, has become one of the country's most exciting industries, with much of the increase in production being exported, particularly to Europe.

In part, the growth was triggered by those commercial farmers who saw in the horticultural sector a chance to earn hard currency and thereby help to offset the crippling costs of borrowing domestically.

As Stanley Heri, chief executive of the Horticultural Promotion Council, points out, one hectare of mange tout can earn as much as 20 hectares of maize, and consume much less precious water in the process. "With water an increasingly scarce resource, it was an attractive option for farmers, and gave them access of hard currency," he says.

Value has also increasingly been added at source. Zimbabwean suppliers of some of Britain's biggest supermarket chains now plant, pick, package, label and price, so that the products can go directly onto the shelves, less than 12 hours flying time away.

"We are ideally placed to produce our products when they are out of season in Europe," says Mr Heri. Volumes have risen steeply in the past few years, with exports to the European Union this year likely to earn over Z$1bn, compared with Z$700m the previous year.

Air transport has been one of the biggest contraints to growth. Initially it had been cost factor, but with Affretair, the national freight carrier, lowering its prices, exports surged. The problem then became capacity. Affretair, operating three freighters, was unable to cope with demand.

"Three years ago it carried 90 per cent of our produce," says Mr Heri. "But the industry had outgrown the national carrier, and we had to adopt an open-skies policy. As a result, it is now carrying only about 20 per cent, and there have been benefits both in terms of costs and efficiency. The element of competition that has developed has been very welcome to the growers," he says.

There are other important benefits, particularly on employment. On average, horticulture employers more than 25 people per hectare, far higher than for bulk crops. It also provides work for women, who are historically at the bottom of the Zimbabwean employment league. Farmers say women have generally proved more efficient than men at harvesting, sorting and packaging.

Mr Heri adds that the industry is well suited to co-operative ventures, although it remains dominated by white farmers. Another benefit he cites is the introduction of new technology.

The pace of growth, however, appears almost certain to slow: there are indications that the European market is close to saturation and competition is becoming fiercer. "But the industry will continue to grow. I have no doubt of that," says Mr Heri.

■ Mining • by Roger Matthews

Decade of hopes close to reality

Development of Hartley is seen as signal of Harare's broader intentions

Zimbabwe's prospects of becoming a significant player in the world platinum market have been touted for nearly a decade, but at last they seem to be close to fruition. When the Hartley mine, 80km west of Harare, comes fully into production next year it will provide some 3 per cent of world supply and annual export earnings of over US$100m.

There is a strong possibility that further development of the same geological structure could lift output to over 10 per cent of world production during the next few years, putting platinum ahead of tobacco and gold as Zimbabwe's single most valuable export.

A great deal is therefore riding on the Hartley project. The US$264m being spent on developing the mine represents the biggest single slice of foreign investment since Zimbabwe became independent in 1980. It is inevitably being watched closely by other potential investors, not just in the mining sector, as a guide to the government's commitment and its willingness to cut through bureaucratic obstacles.

BHP, Australia's largest company, has borne the brunt of the challenge. It has a 67 per cent stake in Hartley, bought two years ago from Delta Gold, another Australian company, which retains the other 33 per cent. Delta, which acquired title over the Hartley area in 1967, has other interests in the same 450-km Great Dyke structure which, if eventually combined, could begin to rival the big South African platinum producers.

Colin Palethorpe, senior vice-president and general manager of BHP Minerals Zimbabwe, says the project is broadly on schedule, a testament to BHP's perseverance. The two key elements in getting the project off the ground were negotiations with the government over the marketing of the mine's production, and the tax regime to be applied, together with other social and environmental obligations.

Until BHP's involvement, all minerals production in Zimbabwe was marketed through the Minerals Marketing Corporation. BHP and Delta were able to secure an exemption, although they have pledged to keep the corporation fully aware of its sales strategy.

"We were sensitive to the reasons why these arrangements were in existence", says Mr Palethorpe. "But it took a great deal of talking and emotional energy to secure the agreement we needed, and we are committed to total transparency."

BHP had also underestimated the strain that such a large project would impose on other parts of the country's infrastructure, particularly power supply and telecommunications. "Generally we have had excellent support," says Mr Palethorpe. "The problems that have arisen were due to the capabilities of some organisations, and the extent to which their resources became strained."

Perhaps more predictable was the risk that BHP would at some point run into the political wall of indigenisation, the official policy of encouraging foreign companies to employ more Zimbabweans, especially in senior positions. The Hartley project, while creating 2,700 jobs locally, also needed skills, especially in supervisory functions, not readily available in Zimbabwe. However, this did not prevent immigration officials blocking the return of nine supervisors to the country for three months, a problem that was only resolved by representations at the most senior level.

Mining labour costs are significantly lower than in South Africa Libe Taylor/Panos Pictures

How bruising these experiences have been for the owners of the Hartley mine may only become clear when they have to decide on the next stage of the project, and when the costs of production become clearer. Initial annual production will be 150,000oz of platinum, 110,000oz of palladium, 11,500oz of rhodium and 23,000oz of gold. Additional production will include 3,200 tonnes of nickel, 2,300 tonnes of copper, 35 tonnes of cobalt and 6,400 tonnes of sodium sulphate. Ore is already being mined and stockpiled.

Production costs for platinum have been forecast at US$320 to US$340 an ounce, some of the lowest in the world and significantly below the international average of US$320 an ounce. "Labour costs are certainly significantly lower here than in South Africa," says Mr Palethorpe. "But for the proof of the pudding we will have to wait until we are in full production."

He is similarly cautious about further development. "We, of course, know that the economics will improve with expansion. The plant was designed with this in mind. But for now our only focus is to get the mine up and running."

The possibilities for expansion are clear. Hartley itself could be developed to produce some 300,000oz of platinum a year, double the production of the first stage. BHP and Delta already have stakes of 61 per cent and 39 per cent respectively in the nearby Mhondoro joint venture, while Delta is also the owner of the Ngezi and Selous areas.

Industry analysts believe it would make sense for BHP to acquire stakes in those two areas. Peter Vanderspuy, the chairman of Delta, said this year that just putting Hartley together with Mhondoro could produce some 750,000oz of platinum a year, or something over 10 per cent of world output.

Although there are many other issues involved, not least the financing arrangements, the attitude of the government could prove crucial. Recent attacks by President Robert Mugabe on South Africa's Anglo American Corporation, and the delay in granting a work permit for a new head of its Zimbabwe's operations, caused widespread concern in the industry.

Mr Mugabe may sometimes be justified in venting his frustrations at the lack of enthusiasm shown by some whites in embracing the promotion of the indigenous community. But it would be tragic if it was at the price of damaging the enormous potential of the mining industry in general, and platinum in particular.

■ Regional trade • by Mark Ashurst

David takes on his southern Goliath

Manufacturers of clothing expect a boost from the compromise deal with Pretoria

The high spot in a year of otherwise troubled trade relations between South Africa and its biggest African trading partner, Zimbabwe, was a deal granting Harare clothing manufacturers better access to the South African market. Alec Erwin, the South African minister of trade and industry, measures its success by the fact that "the agreement is not what we, or what they, wanted".

The compromise signals a new flexibility in Pretoria's approach to trade negotiations, and is possibly a first step in a gradual reappraisal of regional trade policy. The conventional wisdom is that the Southern African Development Community should become a free trade zone. But the massive trade imbalance between South Africa and its regional trading partners is likely to force some modification of that plan.

At a meeting in August, the community members – Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe – affirmed their commitment to free trade.

To a large extent, that accord is based on the prospect of better access to the South African market. Regional governments, traditionally frustrated by the protectionist stance of South Africa's previous Nationalist government, believe a more liberal tariff regime will accelerate the growth of indigenous industries which have traditionally been confined to small local markets.

"All the surrounding economies are in difficult circumstances, and in Zimbabwe the clothing and textiles industries are taking a battering," says Mr Erwin. "We are under pressure to do more."

His experience with Zimbabwean officials has reinforced the impression that South Africa's reputation as the "bully on the block" in sub-Saharan Africa persists. "There has been a sour note in regional trade relations," he says. South Africa's industrial might is increasingly reflected in the rising trade deficits of its neighbours.

Zimbabwe is the first of the sub-Saharan Davids to challenge the South African Goliath. After months of wrangling, ministers in June struck a deal that will lower South African tariffs on imports of clothing and textiles from Zimbabwe. The duty will fall from about 70 per cent to 20 per cent by 2000, subject to a quota regulating the volume of trade.

Nathan Shamuyarira, Zimbabwe's minister of trade and industry, hopes the favourable terms will partially compensate for the imbalance of trade. Zimbabwe's trade deficit with South Africa grew by 157 per cent last year to R3,6m, compared with R1.4bn in 1994.

The agreement is especially remarkable because clothing and textiles is one of very few sectors where South Africa last year recorded a trade deficit with its sub-Saharan neighbours. Imports of clothing and textiles from the area were worth R294m last year, compared with exports of R201m.

The specific preference given to Zimbabwean manufacturers is partial compensation for the flood of other South African exports to Zimbabwe, which surged by 80 per cent last year from R2.5bn to R4.5bn. According to the South African Foreign Trade Organisation, the value of Zimbabwe's imports from South Africa was almost five times its exports last year. The imbalance reflects Zimbabwe's dependence, as a semi-industrialised nation, on South African suppliers of base metals and heavy machinery.

Nico Czypionka, group economist at Standard Bank in Johannesburg, says this pattern is unlikely to change. "The industrialisation of this region will be relatively slow because other countries are not exporting manufactured or industrial commodities – sectors which are already quite competitive in South Africa."

Despite this, Zimbabwe last year achieved a large trade surplus in other sectors, notably live animal products and tobacco. These have long been its staple export, and are likely to surge this year. The country is also a net exporter of clothing and leather goods, footwear, cultured pearls, and semi-precious stones and metals.

The impact on the South African market of this year'sagreement to improve access for Zimbabwean manufacturers will be modest; exports from Harare are unlikely to win more than about 2 per cent of the clothing market. "Morally, this is a very soft issue," says Mr Czypionka. But the compromise is an important precedent.

First, it has been won at a time when South African producers face stiff competition from exporters in south-east and eastern Asia. The duty on imports to South Africa of finished articles of clothing from other countries is scheduled to fall to 40 per cent over seven years – significantly ahead of the 45 per cent target over 12 years specified by the General Agreement on Tariffs and Trade.

Second, it is a departure from the principle of free trade. A recent report from Standard Chartered Bank warns that Zimbabwe's "preoccupation with the South African market must not be allowed to cloud the broader regional vision of a Southern African Development Community free trade area".

Third, the compromise has highlighted the ability of sectoral interests to contain a regional policy initiative. The threat of further competition from Zimbabwe united local manufacturers and trade unions in opposition to the deal.

■ Tourism • by Roger Matthews

Natural opportunity is waiting

The number of visitors is rising fast, but too few are free-spending tourists

The Victoria Falls, a World Heritage site, is by popular acclaim the jewel in Zimbabwe's tourism crown. But the complaint most often heard from leading players in the local industry is that the majority of foreigners believe the Falls are not in Zimbabwe at all, but in South Africa.

Little better illustrates the modesty of the government's international effort to promote tourism, or the enormous potential enjoyed by the industry both in terms of employment and foreign exchange earnings. Despite that, foreigners have been discovering the country in ever-increasing numbers.

The numbers game, however, is fraught with distortions. Total arrivals have more than doubled to 1.3m in the past six years, but over 80 per cent originate from the southern African region. Some 43 per cent are from South Africa, and most of the others are Zambians on a quick shopping trip. Neither group adds greatly to Zimbabwe's tourism receipts.

Chen Chimutengwende, the minister of tourism, says the relatively little revenue they provide is better than nothing, but points out that the other 17 per cent of visitors, mainly from Europe, US and Asia, spend more than the entire southern African contingent.

The lesson is being absorbed by government. The newly-established Zimbabwe Tourism Authority, funded by a 2 per cent levy on gross tourism earnings, intends to concentrate its promotional activities on those core areas in an effort to attract the more affluent and those likely to stay longer in the country. But it has not been weaned from the numbers game, and Mr Chimutengwende believes that Zimbabwe could absorb a fivefold increase in visitors without too much stress.

"After all, Singapore, with a population of 3m, gets 7m tourists a year, and Spain, with a population of 45m, gets 70m, so it should not be too much of a problem for us to. We can increase by five times, or even 10", he says. "Without any real marketing we have already been growing by 10 to 15 per cent a year."

The minister's enthusiasm for sharply higher volumes is not universally shared. David Chapman, the chairman of the private sector's Zimbabwe Council for Tourism, accepts that numbers can be increased significantly, but believes a strategy must be adopted for achieving sustainable development.

"A conflict could emerge between the desire to increase revenues and the needs of the environment," he says. "The Victoria Falls is our problem child. It is the place where everyone wants to go, and although it is not yet saturated, we have to be very careful about future development."

Mr Chapman would particularly like to see greater co-operation between Zimbabwe and Zambia, perhaps with the establishment of a trust, an idea which has already been unsuccessfully mooted. "We need an overall master plan to assess what the area can afford in terms of development. Obviously we cannot just say there must not be any more development at the Falls, but it needs to be further back. At the moment there are a lot of players on the field, but no one has quite decided where the touchlines are."

Officials respond that talks with Zambia have made progress and the aim remains to reach agreement within the next 18 months on a 20-year master plan for the area. For those most concerned about this issue, the sharp fall during the past nine months in the value of the South African rand has not been unwelcome. Arrivals from South Africa have plummeted 40 per cent this year, according to Mr Chimutengwende.

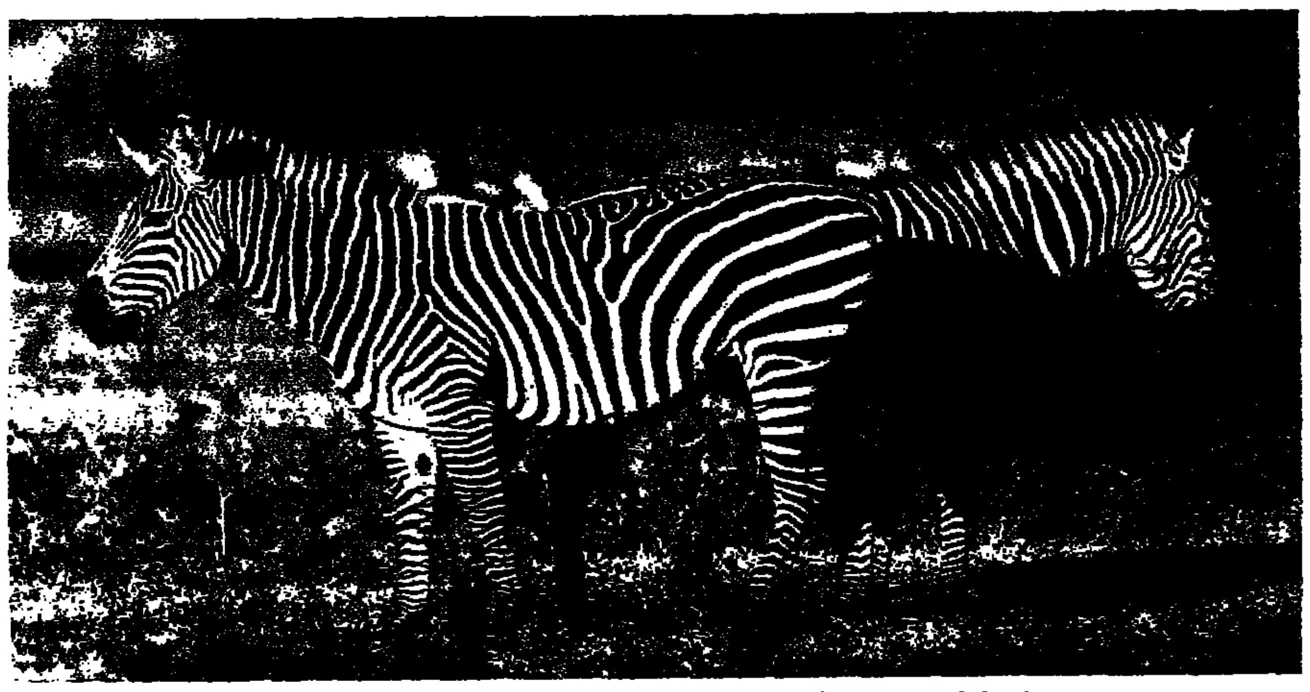
A further challenge is to persuade tourists to stay longer by broadening the range of available activities. After the Victoria Falls, and in the absence of beaches, wildlife is Zimbabwe's most obvious attraction. It has some of Africa's finest reserves, which as yet are not suffering from the over-exploitation experienced in other parts of the continent. However, the number of game lodges on offer is expanding rapidly, and for the government also offers an opportunity to advance its programme for bringing more blacks into the industry.

President Robert Mugabe believes privatisation has an important role to play in this process, and the government is considering a partial sale of the state-owned Rainbow group which owns or manages a number of hotels throughout the country. "We shall sell it, or part of it in a joint venture, as soon as we can find an excellent buyer," says Mr Chimutengwende. "Rainbow was running at a loss until we changed the management three years ago. Since then, the group has transformed a loss of Z$1m into a profit last year of Z$42m."

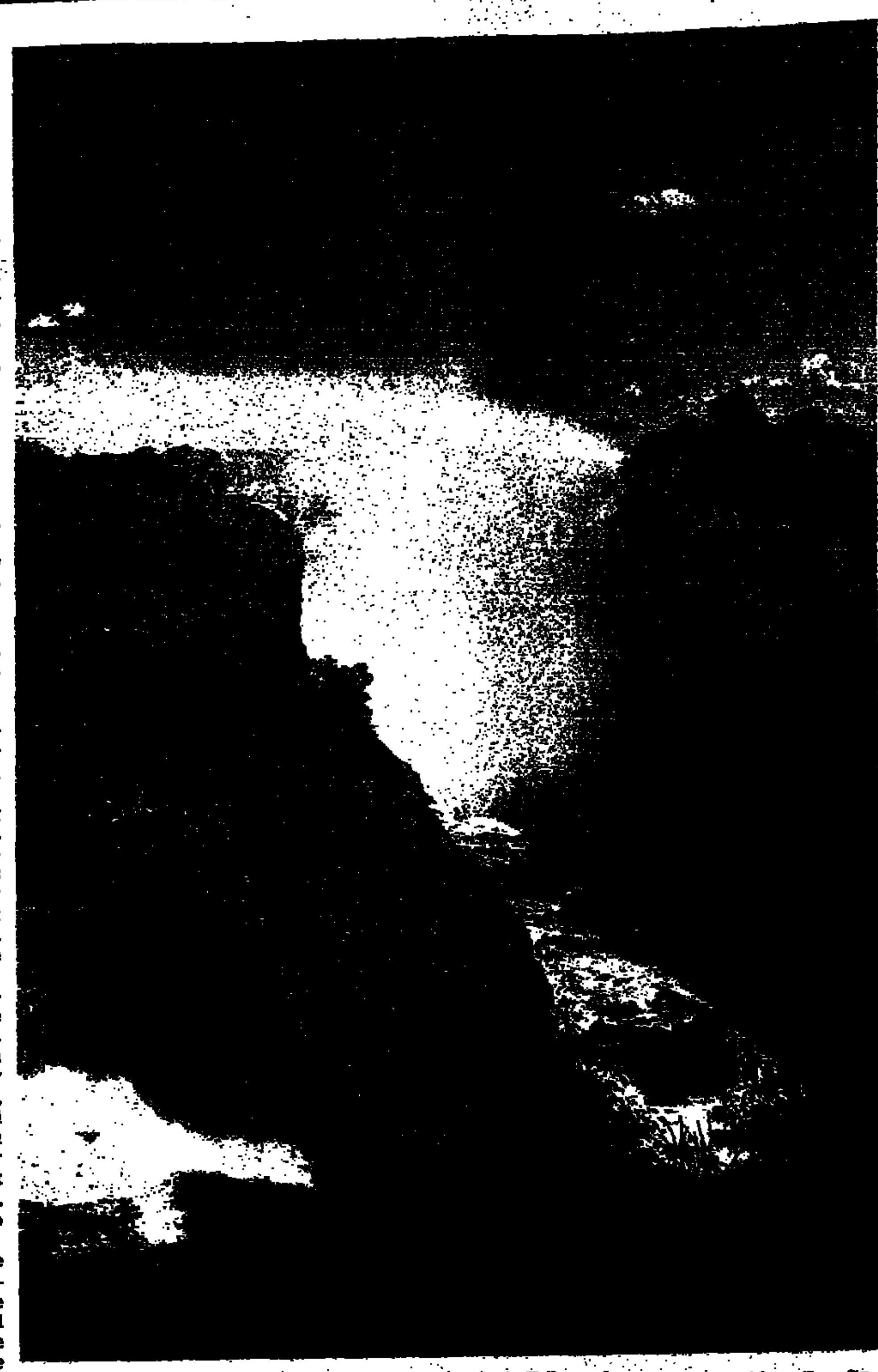
Zimbabweans who are regular travellers would like to see the national airline follow a similar route – a possibility raised by Mr Mugabe – if it wishes to prevent other carriers capturing a larger share of the expected increase in tourist numbers. While the slowly-rotating overhead fans at the airport in Harare may be a charming reminder of the days when aircraft were driven by propellers, the improvement in facilities has become a matter of urgency for the entire industry.

The overall economic benefits for Zimbabwe are increasingly obvious. Employment in the tourism sector has doubled to over 80,000 in the past five years, and its proportion of total employment has risen from 3.4 per cent to nearly 7 per cent. The government's tax yield has similarly benefited, rising from Z$230m in 1990 to Z$1.13bn last year.

For a country suffering the twin ills of high unemployment and an unsustainable budget deficit, increased tourism appears to offer the best and most immediate palliative.



Zimbabwe has some of Africa's finest nature reserves, as yet free from over-exploitation experienced elsewhere — David Reed/Panos Pictures



Jewel in the tourism crown, but the location of the Victoria Falls confuses many — Neil Cooper/Panos Pictures

■ Art • by Diana Mitchell

Fine work takes world stage

Sculpture heads a wealth of talent, much of which has yet to be tapped

When Frank McEwan, a one-time director of the Tate Gallery in London took up the first directorship of the National Gallery in what was then Rhodesia in 1955, he found little to excite him in the work of painters.

He was in search of African art and African talent; he found it in the field of stone sculpture. North of Salisbury – now Harare – at Tengenenge Farm, he met Tom Blomefield, a white tobacco farmer who had abandoned his fields when UDI sanctions stalled the marketing of his crop. He put chisels into the hands of his labourers and turned to stone carving.

Like many farmers he had done a little prospecting along the mineral-rich Great Dyke area of his property. Lemon Moses, a Malawian labourer who had worked with stone at McEwan's Gallery workshop, told him he was sitting on a mountain of beautiful stone. Zimbabwe's modern stone sculpture had its genesis here, and McEwan gave it worldwide exposure.

Henry Munyaradzi, once a farm worker, led scores of black sculptors in the rapid development of Zimbabwe's stone sculpture. It is now found in major private and public collections throughout the world. Wonderful artistry has been nurtured at Tengenenge, at the National Gallery, and at Gallery Vukutu.

In 30 years, stone sculpture has tended to eclipse other art in Zimbabwe. There has been stiff competition from a phenomenal growth of "airport art" – so described by McEwan – for the lucrative trade brought by tourists streaming into the country after Independence, particularly since 1990 when the economy was opened up to market forces. Wood carving, once the province of the late Job Kekana from the country's forested Eastern districts, has been partially overtaken by the appearance of monstrous hippopotami, rhino and elephant carvings which chew up whole indigenous forests of hardwoods. They squat along the tourist routes to Victoria Falls and the Great Zimbabwe ruins.

With rising unemployment, the spawning of countless roadside sellers of stonecraft, basketry, batik, wire toys, hand crochet, handicrafts aplenty and even an occasional display of garish oil paintings, are a tribute to the resourcefulness of Zimbabwe's people and, in many cases, an indication of untapped potential in fine artistry.

In Bulawayo, the country's second city, there is a thriving artistic community at Mzilikazi township, and at the Bulawayo branch of the National Gallery. Foremost among the country's metal sculptors in this area is Adam Madhebe. He and his Harare counterpart, Arthur Azevedo are top performers in a difficult and highly skilled technique.

Painting, long overlooked during the period of excitement over stone sculpture, owes much of its regeneration to the efforts of Gallery Delta's Derek Huggins, whose regular exhibitions have promoted the vibrant and striking paintings of Louis Meque, Richard Jack, Berry Bickle and others. His wife, Helen Lieros, pre-eminent among Zimbabwe's painters, has worked hard to encourage other artists in this medium.

Gallery Delta, is a kind of living museum; the refurbished former home of the late Robert Paul, a superb painter whose work is presently being exhibited overseas. The place breathes creativity.

A few years ago, a move was made to bring artists from all over the world to join with Zimbabweans in a series of sponsored workshops, known locally as "Pachipamwe" (coming together). Robert Loder, a British businessman who was involved in an international Triangle workshops movement, was persuaded by the former Rhodesian artist, Pat Pearce – now living in Britain – to sponsor the first workshop in 1988. Subsequent annual events were sponsored by local businesses and international donor agencies. Lack of funding has brought this effort to a standstill.

Blomefield's Tengenenge lives on. Frank McEwan died in England last year, but his vision for Zimbabwe's sculptors remained undiminished to the end. Writing in Yorkshire's Zimbabwe Stone Sculpture exhibition publication (1990) he said: "Perhaps, one day, some of these sculptures may be compared with those of antiquity, with genius of form that reveals eternal meaning."

Zimbabwe Heritage 1991, a wood sculpure by Nicholas Mukomberanwa — National Gallery of Zimbabwe

FINANCIAL TIMES

COMPANIES & MARKETS

Thursday October 24 1996

IN BRIEF

Volvo operating profits tumble

Shares in Volvo dipped sharply after the Swedish group announced that operating profits were virtually wiped out in the third quarter by losses in its truck unit and further weakness in its car division. Group operating profits – before one-off items – fell to just SKr43m ($6.5m) from SKr2.5bn a year ago. Page 16

Higher oil prices lift DuPont

DuPont, the US chemicals group, managed to increase third-quarter earnings per share more than 20 per cent on the previous year, with only a three per cent increase in sales, after strong oil prices helped boost profits from Conoco, its petroleum business. Page 20

GAN loss nears FFr1bn in first half

GAN, the French state-owned insurance group, unveiled nearly FFr1bn ($190m) in losses for the first half and warned of the need for a substantial new recapitalisation by the government ahead of its planned privatisation. Page 16

JCI bucks falling gold sector trend

JCI, the South African gold producer earmarked for sale to black investors, beat the trend of falling gold industry performance with a 17 per cent rise in net profits to R128m ($28m) for the September quarter. Page 18

Pacific Dunlop sells pacemaker unit

St Jude Medical, the US medical products group, is to acquire Telectronics Pacing Systems, the troubled implantable medical products unit of Australia's Pacific Dunlop conglomerate, for an initial US$135m. Pacific Dunlop said there was a further "earn-out" provision which could add up to US$25m to the price by 2002. Page 19

Normandy may list in N America

Normandy Mining, the Australian gold mine group, is likely to seek a listing on a North American exchange next year. Page 19

Spain's olive farms fear fresh squeeze

In southern Spain's rolling olive groves the word "catastrophe" is in the air – the European Commission is proposing reform of the support system for olive oil. Page 26

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Falls			
Hoomann	344	–	8
Kali & Salz	152.5	–	6.7
Metro AG	126.2	–	8.5
PWA	212	–	6
Porsche	1050	–	42
SAP AG	210.3	–	61.2
NEW YORK ($)			
Rises			
Conrail	95½	+	12
Syratech	31	+	4¾
Unit Auto	34½	+	4½
Waban	27⅛	+	3¼
Falls			
Boston Beer	12⅜	–	3⅛
Nova	27⅜	–	3
LONDON (Pence)			
Rises			
SEET	57½	+	14
Usher (F)	173	+	8
Falls			
Balcyrchik	197½	–	15
BSkyB	636	–	42½
Ocean Wilsons	78½	–	4
RCO	225	–	15½
TORONTO (C$)			
Rises			
Geac Computer	18.0	+	1.65
Goran Capital	27.0	+	1.5
Imax	47.0	+	3.5
Utd Grain	12.5	+	1.35
Falls			
AIT Adv Info	5.0	–	0.8
ML Cass Pet	4.85	–	0.85
PARIS (FFr)			
Rises			
SILIC	738	+	35
Vallourec	259.8	+	6.7
Falls			
Christian Dior	632	–	23
Club Med	329	–	69
Fonc Lyonnaise	532	–	13
Legardere	168.7	–	11.1
TOKYO (Yen)			
Rises			
Inax	998	+	31
Falls			
Akebono Brake	550	–	22
Itoham Foods	749	–	26
JEOL	751	–	24
Nippon Road	820	–	27
Tekken Corp	758	–	27
HONG KONG (HK$)			
Rises			
Goodwill Inv	3.35	+	0.3
Lai Shing Hong	5.65	+	0.35
NG Fung Hong	4.7	+	0.275
Ngai Hing Hong	3.575	+	0.3
Tai Ping Carpts	3.0	+	0.3
Falls			
Road King Infr	8.0	–	0.35
BANGKOK (Baht)			
Rises			
Book Club	48.75	+	4.25
Interlife	64.0	+	5.5
Falls			
Jalidie Dev	44.0	–	4.75
Kiang Huat	91	–	10
Seafresh Inds	30.25	–	3.25
Utd Flour Mill	44.0	–	4.75

New York and Toronto prices at 12:30.

Shares in SAP plunge on warning

By Wolfgang Münchau in Frankfurt

Shares in SAP, the German business software group and one of the recent top performers on the Frankfurt stock exchange, yesterday slumped by almost a quarter after a warning over future sales and profit growth.

The warning ends a period of market optimism about one of the world's largest software companies. SAP's shares were the best performing in Germany last year. The ordinary shares yesterday fell from DM271.5 to DM210.3.

The slide followed the announcement that SAP was unlikely to meet its target of 40 per cent earnings growth in the current year. Last year, it made net earnings of DM404.8m ($273.5m).

SAP's warning came with third-quarter results which showed pre-tax profits down from DM152m in the third quarter of last year to DM135m this year because of stagnating sales in Germany. For the nine-month period, profits rose 33 per cent from DM385m to DM509m on turnover up from DM1.79bn to DM2.37bn.

Mr Dietmar Hopp, chairman, said: "This rather moderate growth in the third quarter came unexpectedly and is related to only a few countries." These include Germany, the UK, Switzerland and Sweden.

He now expected full-year turnover of DM3.5bn, after DM2.7bn last year, which suggests a sales growth rate of just under 30 per cent.

Analysts were surprised by the statement. In a report this month, reflecting the market's optimism, Salomon Brothers, the US investment bank, described SAP as "the King Kong of the applications business", and recommended the shares as a "strong buy".

Mr Peter Thilo Hasler, analyst at Vereinsbank, yesterday acknowledged that the group's shares had been "grossly overvalued". Most analysts agreed.

SAP is best-known for its R/3 client/server business software, an integrated software package for commercial use. After the product's launch in 1992, SAP established world market leadership in this segment.

Its other main product is R/2, a business software package for mainframe computers. The 33 per cent rise in nine-months sales was made on a 39 per cent increase in R/3 and a 14 per cent decline in R/2.

The news is likely to renew worries about SAP's dependence on a single product. Earlier this year, the shares came under pressure because of a report by Forrester Research, a US consultancy, which said big changes in the business software market would eventually render R/3 obsolete.

Mr Henning Kagermann, a board member of SAP, acknowledged yesterday that the company had not reacted fast enough to changes in the market. The average order size had been falling and customers had become more aggressive in negotiating prices.

He forecast that the company could achieve DM400m in operating profits in the last quarter, during which SAP traditionally achieves the bulk of its earnings.

Lex, Page 14

Oriental Land seeks Y160bn in listing

By Gwen Robinson in Tokyo

Oriental Land, the owner-operator of Tokyo Disneyland, Japan's most successful theme park, hopes to raise Y160bn ($1.48bn) from a listing on the Tokyo stock exchange in December. The proceeds will finance construction of a second theme park, Tokyo Disney Sea, being planned at a site next to Tokyo Disneyland. The Y300bn project is scheduled for completion by 2001.

The listing, which analysts said would be an important gauge of how investors rate the lucrative leisure industry, will take place on the TSE second section, where listing criteria are less onerous than on the main section.

Before the listing, Oriental Land will issue 15m-18m new shares and will also sell 6m-8m shares from existing holdings of its main shareholders – Mitsui Fudosan, the property developer, and Keisei Electric Railway, the private rail and bus operator.

The company plans to offer the new shares at Y8,000-Y10,000 apiece.

Confirmation of the listing lifted shares of Keisei Electric Railway, the third-largest shareholder in Oriental Land with 13.4 per cent, by Y10 to Y1,150. Mitsui Fudosan, the largest shareholder with 38.2 per cent, was unchanged at Y1,450. The second-largest, Keisei City Development, is unlisted.

"We've been waiting for this stock to list for some while – it's bound to be greeted with much fanfare by the market," said one analyst. He said individual investors were likely to be keen on the issue. A planned auction of the new shares to institutional and large investors is expected in early to mid-November.

For the year to March 1996, Oriental Land posted revenues of Y171.5bn, up 11.4 per cent from the previous year. Recurring profits were Y28bn, up 29.6 per cent, and net profits of Y14.7bn were 11.9 per cent higher.

Tokyo Disneyland, opened in April 1983, was the first Disney theme park outside the US. Unlike its European counterpart, EuroDisney, Tokyo Disneyland was an overnight success. It has had an average of more than 12m visitors a year – a total since 1983 of more than 170m, or 1.4 times the Japanese population.

BA poised to gain control of French carrier

By Ross Tieman in London and David Owen in Paris

British Airways was last night on course to win control of Air Liberté, the troubled French carrier, after a rival French consortium abandoned the proposals it had put to administrators.

BA has been joined in a new offer to inject FFr630m (£90m) into Air Liberté by Groupe Rivaud, the banking group that had formed part of a rival French rescue consortium headed by Nouvelles Frontières, the travel group.

Firm offers from Virgin Express, the low-cost airline run by Mr Richard Branson, and French commercial pilot Mr Fernand Denan failed to materialise.

Success would enable BA to run Air Liberté in tandem with its existing French airline, TAT, giving it a 20 per cent share of the French domestic air market.

That could pave the way for a fierce battle for market share between BA and Air France, the state-owned carrier staging something of a recovery under Mr Christian Blanc, its chairman.

Air France, which carries 60 per cent of the 25m people who fly within France every year, is in the process of merging with Air France Europe, its domestic arm, ahead of further liberalisation of air travel next spring. The opening up of the market has been ordered by the European Commission

BA began to position itself for the market-opening four years ago by setting up Deutsche BA in Germany and by the phased acquisition of TAT, which has 8 per cent of the French domestic air market. Neither has made a profit yet.

Administrators to Air Liberté, which is heavily loss-making, will meet tomorrow to consider the BA/Groupe Rivaud offer. If the proposal is accepted, BA will have 70 per cent of Air Liberté, and Rivaud, the airline's principal banker, will have almost 30 per cent.

BA plans to invest FFr440m in exchange for its shares, and contribute FFr100m to cover losses incurred since September 26 by the administrators.

It is understood that Groupe Rivaud will contribute FFr250m of new money, including a FFr50m contribution towards the administration costs. It is also expected to write off FFr500m of debts owed by the airline.

BA said its rescue plan would save the jobs of 1,250 of Air Liberté's 1,400 staff. It has also pledged to maintain services on all of its domestic routes – largely out of Orly, south of Paris – and on those to the West Indies and the Indian Ocean island of La Réunion. However, the airline's services to Africa will be reviewed.

Thirteen of the airline's 15 Boeing 737 and McDonnell Douglas DC10 and MD83 aircraft would be retained.

BA said it anticipated breaking even at both TAT and Air Liberté "within three years". Mr Robert Ayling, BA's chief executive, urged the administrator to make a quick decision on the package which, he claimed, offered "the ideal solution to Air Liberté's very poor financial position". He said Air Liberté would still be a French airline with French management, staff and investors.

PolyGram sees flat annual result

By Gordon Cramb in Amsterdam

PolyGram, the world's largest music company, disappointed investors yesterday when it issued a profits warning and launched a restructuring at a number of its record labels.

"Entering the important fourth quarter, the company expects full-year 1996 operating results before restructuring charges to be flat or slightly below last year's, caused by lower than expected music sales," it said.

In addition, PolyGram is to take a $90m reorganisation charge. It said this reflected an overhaul at Motown, its soul music label, and in its classics division which includes Deutsche Grammophon and Decca. Music distribution and marketing in Europe are also to be shaken up. About 400 jobs are to go worldwide out of a total of around 12,000.

Three months ago, Mr Alain Levy, president, announced interim income from operations up 1.7 per cent at Fl 420m ($242m). Although music sales were turning sluggish, he forecast "another year of progress". A second-half lift was expected from big releases ahead of the peak Christmas season – among them a new album from U2, the top-selling Irish rock band.

Slower rhythm: three months ago, Alain Levy (left), president, forecast "another year of progress" with big releases – among them a new album from U2, led by Bono (right). However, U2 decided it needed more time in the studio and the launch will take place early next year

But U2 decided it needed more time in the studio and the album launch will not take place until early next year. "They had a tight schedule and it was not ready in time for a Christmas release. It is not in anybody's interests to make an album which is not right," PolyGram said yesterday.

The shares closed off Fl 5.40 in Amsterdam at Fl 79.50, a low for the year. The company, managed from London, is a 75 per cent subsidiary of Philips, the Dutch electronics group. Shares in Philips shed Fl 2.40 to Fl 56.60 as the parent prepared today to announce an expected slide in third-quarter earnings and further restructuring measures of its own.

PolyGram said Motown, which it acquired in 1993, had to "revitalise its artist roster" so that the label was not so dependent on royalties from its back catalogue. Part of the extraordinary charge related to the recent move of Motown's headquarters from Los Angeles to New York.

The group added that its film business was "expected to proceed according to plan". This summer it withdrew from a bidding contest for the MGM Hollywood studio. Buying it would have transformed PolyGram's four-year-old film business, in which it has invested about Fl 1.2bn.

PolyGram – producer of *Trainspotting* and *Four Weddings and a Funeral*, two British successes – lacks its own distribution outlet for cinemas in the US large enough to deal with blockbusters.

As a result, it had to sell the US box office rights to *Sleepers*, which opened last weekend. It insisted that the failure to buy MGM did not disrupt its plans for the unit. It expected in the next few months to have a US distributor in-house.

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Club Med shares drop 17% after profits warning

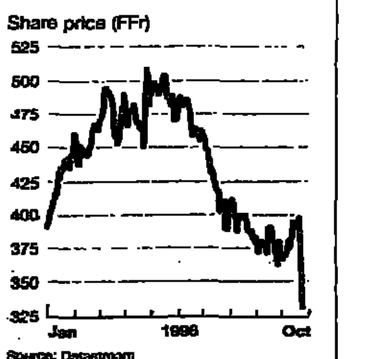
By Andrew Jack in Paris

Club Méditerranée, the French-based leisure group, saw its shares fall by nearly a fifth yesterday after announcing that its operating results for the second half of the year would be lower than expected.

The shares closed down 17 per cent at FFr329 on the Paris bourse in reaction to the warning, which was issued on Tuesday evening after the market had closed.

Club Med

Share price (FFr)



Source: Datastream

Club Med said the continental European business climate had encouraged clients to choose less expensive holiday packages, especially during the second half of the summer. It said its second-half operating profits would be at the same FFr25m level as last year.

The warning highlighted the difficulties facing the tourism sector in Europe at a time of sluggish economic growth and a reluctance by consumers to spend money on leisure.

However, the statement, coming so soon after a far more bullish commentary on the full-year results which Club Med issued in early September, also triggered more fundamental concern by some analysts about the way the company was operating.

Mr Serge Trigano, chairman and son of the founder of the company, had said that sales for the full year would be up by 5 per cent on 1994-95. Mr Antoine Cachin, managing director, said yesterday that customers had spent less than anticipated and growth in numbers would in fact be up only by 1-2 per cent. Its lower-price Club Aquarius holidays had been particularly disappointing.

He added that the group's businesses outside Europe would perform in line with expectations. Europe accounts for about two-thirds of turnover, and France almost half of European sales.

The news prompted many financial analysts to revise their profit forecasts and switch their recommendations. Mr Nigel Reed, leisure analyst with Paribas in London, cut his earnings per share projection for this year by 16 per cent to FFr6 a share and changed his advice to investors from a "hold" to a "sell".

"People were saying that business was picking up in France," he said. "I think it was a temporary recovery and there will still be sluggish growth next year."

He warned that other French leisure stocks such as Accor, the hotels group, could also be affected by the conditions.

Lex, Page 14

Truck losses erode operating profits at Volvo

By Hugh Carnegy in Stockholm

Shares in Volvo dipped sharply yesterday after the Swedish group announced that operating profits were virtually wiped out in the third quarter by losses in its truck unit and a further weak performance in its car division.

The poor results from its two core divisions, which are the mainstays of Volvo's strategy to be a stand-alone automotive manufacturer, were worse than investors had expected. Volvo's most-traded B shares fell SKr5 before recovering to end down SKr3 at SKr138.50 in Stockholm.

Volvo said group operating profits – before one-off items – fell in the quarter to just SKr43m ($6.5m), compared with SKr2.5bn at the same stage last year. This left operating profits for the first nine months down from SKr8bn to SKr2.3bn, on sales reduced from SKr129bn to SKr113.5bn.

Group pre-tax profits jumped from SKr5.4bn to SKr8.2bn in the third quarter because of a SKr7.8bn capital gain from the sale of Volvo's share in Pharmacia & Upjohn, the drugs group. The surplus for the first nine months rose from SKr10.8bn to SKr12bn, pushing up earnings per share from SKr20 to SKr28.70.

But the bottom line improvement could not disguise the underlying fall in profits. Worst hit was the truck division, the main engine of Volvo's profits over the past two years. It slumped to a loss of SKr665m in the third quarter, from a profit of SKr1bn at the same stage last year, mainly because of steep losses at its North American operations.

The car division posted a slight improvement, as operating profits rose from SKr350m to SKr386m. However, performance was held back by lower sales and high product development costs.

Mr Sören Gyll, chief executive, acknowledged the results were disappointing. But he insisted Volvo's strategy of investing all its resources in its core operations was unshaken.

"The weak operating income during the period does not reflect the group's strategic position," he said.

Analysts warned that they were likely to downgrade forecasts for Volvo's full-year results. But they also acknowledged that performance should improve next year.

Mr Karl-Erling Trogen, head of the truck division, repeated his forecast that the truck operation in the US – which lost SKr1.4bn in the first nine months after a 30 per cent fall in sales – would return to break-even in the first half of next year.

The car division suffered an 8 per cent fall in the number of cars sold. But this was ascribed mainly to the withdrawal of old models.

GAN warns of need for fresh funds as losses approach FFr1bn

By Andrew Jack in Paris

GAN, the French state-owned insurance group, yesterday unveiled nearly FFr1bn ($193m) in losses for the first half of the year and warned of the need for a substantial new recapitalisation by the government ahead of its planned privatisation.

Mr Jean-Jacques Bonnaud, chairman, said the loss for the full 1996 year was likely to be almost double yesterday's announced level, given continued heavy provisions against the continued deterioration of the French property market.

He said he expected to have prepared a figure for the size of the necessary recapitalisation by the end of this year, and that with this additional support from the state, a sell-off during 1997 remained "realistic".

GAN is believed to have demanded a FFr10bn recapitalisation from the government in 1994, but has to date only received a capital injection, in the form of state-owned shares, of FFr2.8bn.

In addition, the state earlier this year launched the sale of a 67 per cent stake in CIC, the retail bank owned by GAN, and which is recorded in the insurers' books at FFr14.7bn.

However, the sale is running into difficulties, since there are believed to have been just two offers for CIC – at significantly below this valuation. A sale at a lower price would risk creating a significant capital loss for GAN, requiring a further recapitalisation likely to total more than FFr3bn.

Mr Bernard Yoncourt, chairman of CIC, was rebuked by Mr Jean Arthuis, the finance minister, last week for expressing his concern that the two possible buyers – the French banks Société Générale and Banque Nationale de Paris – could jeopardise the future of GAN unless there were safeguards placed on the conditions of the sale.

Mr Bonnaud yesterday reiterated the importance of GAN being able to retain its bancassurance links with CIC which, through their joint venture Socapi, generated FFr144m in net profits for the half year on sales up 62 per cent to FFr6bn.

GAN's problems are largely concentrated in its portfolio of property investments and loans, many of which were inherited from UIC, a subsidiary of CIC which is now managed directly by the GAN holding company. UIC contributed a loss of FFr799m in the first half, compared with a loss of FFr596m last time.

A further FFr16bn of property investments are held in two ring-fenced "defeasance" structures set up in 1993, which incurred losses of FFr988m for the first half this year, against losses of FFr714m last time.

Mr Bonnaud said he hoped now to speed up the process of selling these assets.

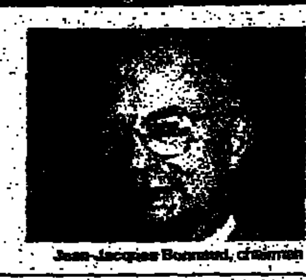
GAN's underlying performance from insurance dropped slightly, from FFr489m to FFr464m, on sales up 12 per cent to FFr29bn. Life net profits in France were FFr425m, against FFr627m, and non-life reported a loss of FFr162m, compared with a deficit of FFr359m last time.

International business reported a fall in profits from FFr221m to FFr202m, while CIC's profits rose from FFr387m to FFr472m.

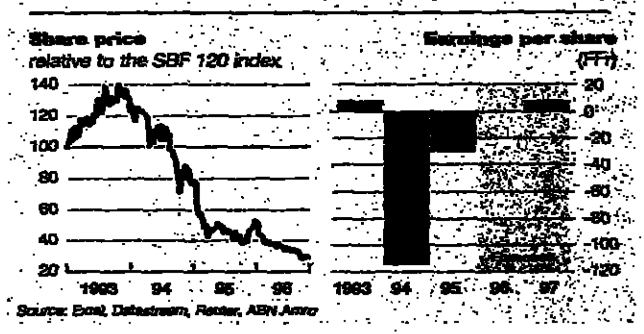
PROFILE

GAN

Market value: $1.35bn	Main listing: Paris
P/E	n/a
Gross yield	nil
Losses per share	FFr-31.2
Current share price	FFr123



Jean-Jacques Bonnaud, chairman



Source: Extel, Datastream, Reuter, ABN Amro

Axa highlights high cost of French social security

By Andrew Jack

Axa, the French insurance group, pays more to the state in social security charges than it pays to its employees in salary, according to figures it released yesterday.

In an indication of the high levies imposed on companies in France, Axa pays FFr3.1bn ($597m) in total salaries, social costs and company charges, compared with just FFr1.4bn received by its staff net of employees' social security contributions.

The detailed figures for its 8,000 French employees, which are contained in its social report for 1995, illustrate the high costs of the French social security system, which critics argue act as a strong disincentive on companies to hire new employees.

They come at a time when a growing number of business executives and politicians are calling for a re-examination of the charges in an effort to reduce the country's record 12.6 per cent level of unemployment.

The report shows that out of a gross wage bill of FFr1.8bn, the company deducted FFr381m to cover employees' contributions to the social security system, including retirement, unemployment and health insurance payments.

The company's own social security contribution on behalf of its employees cost FFr847m, with payroll taxes taking another FFr203m, training costs FFr84m, and other social expenditure including payments to works' committees a further FFr122m.

The average salary was FFr16,858 a month, an increase of 4.4 per cent on the previous year.

The figures include other voluntary expenses incurred by Axa, including its innovative "union cheque" system, by which it provides employees with a cheque which they can use to pay subscriptions to a union of their choice. Of the 4,700 issued to staff, 2,900 were cashed by unions for a total cost of FFr1.2m.

In a reflection of a growing trend across the country, Axa highlighted the fact that there was a sharp take-up in its programme of part-time working, with 11 per cent of its staff taking advantage of a four-day week – at 80 per cent of the full-time salary – or patterns designed to fit in with school holidays.

It said that while the figure was lower than the national average of 15 per cent, its programme was entirely voluntary, while many of those recorded in national statistics were working part-time against their will.

EUROPEAN NEWS DIGEST

Olivetti sell-off plan criticised

Plans by Olivetti, the troubled Italian information technology group, to sell part of its stake in Omnitel, its mobile telecoms subsidiary, were strongly criticised yesterday by a foreign fund manager.

Speaking ahead of a two-day parliamentary hearing on Olivetti, Mr Mark Pignatelli, of Barings Asset Management, challenged the idea of raising cash by lowering Olivetti's profile in the potentially profitable telecoms sector.

He said Olivetti's move in 1995 into operating Italy's second mobile phone network was "the only reason" Barings had bought into the group.

"Selling part of the stake in Omnitel means losing something which the market considers valuable," he said. "The decision seems to have been taken because in this way strategic control is maintained over the company [Omnitel] although the investment loses value," he added.

Mr Roberto Colaninno, Olivetti's new chief executive, announced On October 3 that the group would raise L800bn ($522m) in asset sales before the end of this year.

This included the personal computer business and an 8 per cent stake in Omnitel-SR, the multinational consortium led by Olivetti which owns 70 per cent of Omnitel Telecomunicazioni Cellulari the mobile phone operator.

The 8 per cent stake was bought last year from Lehman Brothers for L283bn, but is believed to be worth much more and could account for almost half the amount sought by the year-end to reduce debt.

Olivetti last week agreed to take on four new non-executive directors, including one representing foreign shareholders, who account for some 40 per cent of the capital.

The two-day parliamentary hearing could sway the balance in favour of the setting up of a parliamentary commission of inquiry into the past management of Olivetti.

Robert Graham, Rome

Product recall hurts RPR

A product recall reduced third-quarter earnings at Rhône-Poulenc Rorer, the US drugs group 68 per cent owned by Rhône-Poulenc of France, by 17 cents a share, though the company still managed an 18 per cent increase on the same quarter of 1995. RPR reported third-quarter net income of $97m, up from $81m last year. Earnings per share of 72 cents were below analysts' estimates of 80 cents.

RPR had warned earlier this month that the voluntary world-wide recall of its albumin product, sold through Centeon, a joint venture with Germany's Hoechst, could hit 1996 earnings by 10-12 per cent.

The effect of the recall will continue to be felt in the fourth quarter, as Albuminar and Plasma Plex shipments are not expected to resume before January 1997. However, the company said it did not expect any impact on 1997 earnings.

Earnings growth was achieved despite a slight reduction in net sales. Costs fell as a result of RPR's recent licensing of certain low-margin products to Medeva and its sale of its UK generics business, helping the company to improve margins.

Furthermore, the proportion of higher-margin drugs has increased, as new products came on-stream, and sales of older drugs flagged. For example, Taxotere, one of RPR's new oncology products, performed well in the quarter, while in the US, sales of Lovenox nearly doubled.

Tracy Corrigan, New York

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JCI beats expectations with 17% improvement

By Mark Ashurst in Johannesburg

JCI, the South African gold producer earmarked for sale to black investors, announced a sharp rise in profits for the September quarter.

A record performance at HJ Joel mine, which for the first time showed significant gains as a result of an ambitious restructuring, helped lift the group's net profits 17 per cent to R128m ($28m).

The results bucked the falling trend in the gold industry's performance for the September quarter. Improved gold production and a higher gold price outweighed a 9.5 per cent increase in working costs. Pre-tax profits were 28 per cent higher at R116m, before capital expenditure.

The figures were above expectations and the shares closed up R150 at R5,025. Analysts said the results, if sustained, would prove a tough benchmark for JCI's future performance under black control. The quarterly advance follows a 27 per cent rise in pre-tax profits for the three months to June.

Anglo American Corporation, which owns a 48 per cent controlling stake in JCI, is at an early stage in negotiations to sell its holding to black investors. The sale, which was announced in March 1994, is likely to be concluded next year.

HJ Joel, the group's smallest mine, reported a 134 per cent rise in operating profit to R29m, against R12.7m in the June quarter. Analysts attributed the gain to a stable industrial relations climate at the mine, which introduced full-calendar working during the quarter.

Mr John Brownrigg, chief executive of JCI's gold division, forecast that HJ Joel would become "the lowest cost or next to the lowest cost producer in South Africa" within the next two quarters.

However, analysts noted its costs for the September quarter remained almost 20 per cent higher than those of Beatrix, Gengold's flagship gold mine, which reported costs of R30,905 a kg, compared with R36,805 a kg at HJ Joel.

Gold production was 17 per cent higher at 1,600kg, exceeding its previous best of 1,560kg for the March 1992 quarter. The average gold price received was 8.1 per cent higher at R54,923.

Mr Brownrigg predicted that current levels of production would be maintained throughout the year. But pre-tax profit of R41m before capital expenditure was buoyed by R11.9m in interest on cash reserves swollen by a rights issue last year.

At Randfontein, JCI's biggest mine, operating profit was 6 per cent higher at R37.4m, reflecting a higher gold price and effective cost control. Working costs rose 5.8 per cent, largely because of an 8.5 per cent increase in wages.

Gold production fell by 1.8 per cent, slightly denting the gains from a 6.7 per cent increase in the gold price received to R50,053.

Western Areas reported pre-tax profits up from R42.7m to R50.3m, helped by a 4.1 per cent rise in gold production. The average gold price received was 6.5 per cent higher at R55,186.

Showing shareholders the true value of Suez

Chairman Gérard Mestrallet has moved to refocus the group

Gérard Mestrallet: setting out to court shareholders

If not a wind, there is at least a breeze of change wafting through the corridors of the grandiose Paris headquarters of Suez, the French financial and industrial holding company.

A little over a year after Mr Gérard Mestrallet replaced chairman Mr Gérard Worms, who resigned after criticism from leading shareholders, the long-standing Suez executive has firmly imprinted his mark on the group.

Mr Mestrallet has moved quickly to deal with the group's most pressing problem – property – committing it to a complete withdrawal from the sector by 2001. Already, its holdings have dropped from FFr19.7bn at the end of 1994 to FFr12.4bn ($2.4bn) now. Property provisions have reached 55 per cent of that remaining total.

Mr Mestrallet has also moved to rationalise the banking operations. The group had been penalised by rating agencies which questioned its ability to support its investment banking activities. The group has sold a majority stake in Banque Indosuez, its investment bank, to Crédit Agricole, in a deal which eliminated group debt and should leave it with FFr3bn in cash by next year.

Mr Mestrallet is also trying to make the company more focused. "Our strategy was not visible in the past, but I think little by little it will become clear and well-defined," he says.

He stresses that there are now two core divisions in Suez: utilities, and financial services to individuals, built around the Sofinco consumer credit arm in France and Générale de Banque in Belgium. It is into these two sectors that the group's investments will be channelled in the future.

The most significant move in utilities was the acquisition of an additional stake in Tractebel, the Belgian group, to lift Suez's holding to 65 per cent. "The Tractebel acquisition is a real act of refoundation," Mr Mestrallet says. Suez also invested FFr600m to support the takeover bid by Lyonnaise des Eaux, the utilities group in which it holds 20 per cent of the votes, for Northumbrian Water, of the UK.

Critics say there could be considerable competitive tensions between Lyonnaise des Eaux and Tractebel. However, Mr Mestrallet says there is little overlap in either the services they offer or the markets in which they do business.

He rejects the suggestion that, as he puts it, "two divisions is still one too many". He stresses the opportunities in financial services, including Sofinco's high return on investment and Générale de Banque's strength in its domestic market. There is also the enormous potential in utilities offered by European deregulation and growth elsewhere in demand for infrastructure provision.

He rules out the frequently suggested merger of Suez and its Société Générale de Belgique subsidiary, both of which serve as holding companies. "SGB's costs are less than 0.3 per cent of assets it manages. It offers good value for money."

Mr Mestrallet also suggests SGB is also useful as a way for Suez to acquire Belgian assets such as Tractebel and Générale de Banque without stirring sentiment about companies falling into the hands of foreigners. He even calls Suez "a Franco-Belgian group".

This also explains why he welcomes the recent investment in Suez by Mr Albert Frère, the Belgian financier, and hopes to see him join the board soon.

The big question still hovering over Suez is the extent to which it really provides added value: its range of investments is diverse, and some of them are not big enough to give it a controlling interest.

Mr Mestrallet replies by citing examples such as Saint Gobain, the French glass and building materials group which Suez helped restructure, and its role as adviser on long-term strategy (and provider of financial support) at Lyonnaise des Eaux.

He is sufficiently confident that the time is at last right to begin courting shareholders: he will leave for a roadshow to the US before the end of the year. Mr Mestrallet has a reasonable story to tell, says Mr Antoine Colonna, an analyst with Cholet-Dupont in Paris. "All Suez's activities are beginning to show strong growth, and there is a willingness by management to create shareholder value."

That commitment to shareholders was demonstrated last week: Suez completed the highly unusual move – for a French company – to buy back and cancel shares and convertible bonds which could have diluted its capital by up to 7 per cent.

Nevertheless, Suez still trades at a substantial discount to its net asset value – which it estimates at FFr333 a share against a closing price yesterday of FFr219.50. But Mr Mestrallet argues that investors in the group get access to the returns from its profitable participations – some of which are not quoted separately – and will receive "good value" as long as the discount does not increase.

Not everyone is convinced. Mr Colonna thinks recent changes represent a shift in the right direction, but he remains guarded in his praise. The breeze of change will need to stiffen if Suez is to survive. Without further structural changes, says Mr Colonna, "it is not impossible that in five or 10 years Suez will no longer exist".

Andrew Jack

EUROPEAN NEWS DIGEST

VW profits more than doubled

Volkswagen, the German carmaker, continued to register strong profits growth in the first nine months, more than doubling net earnings to DM465m ($302.9m) from DM185m for the same period last year. The increase was achieved on a 12.6 per cent rise in sales, from DM65.2bn to a record DM74.5bn.

Analysts said the results, which were broadly in line with expectations, confirmed the trend seen at mid-year, when earnings jumped from DM113m to DM282m. The shares closed 1.4 per cent higher at DM587.75. Mr Simon Miller, analyst at UBS in London, said medium-term prospects were good. "The sales increase was pretty impressive and profitability should improve noticeably for the full year," he said. "We could be looking at earnings per share of about DM40 this year and DM60 next." Earnings per share were DM22 last year. Mr Miller said the group would come close its target of doubling pre-tax return on sales by year-end. In 1995, it reported pre-tax profit of DM1.1bn on sales of DM88.1bn. Net profit stood at DM336m.

Pre-tax profit for the nine-month period rose 56 per cent from DM948m to DM1.48bn. Europe's largest carmaker delivered 2.65m vehicles, 12.6 per cent more than last year. Production rose 8.7 per cent to 2.74m units. Volkswagen said a full report for the period would be released next month. *Sarah Althaus, Frankfurt*

Trading gains drive BPI rise

Substantial trading gains helped lift net consolidated profit at Banco Portugues de Investimento, one of Portugal's leading financial groups, by 71 per cent in the first nine months, to Es12.1bn ($78.2m) from Es7.1bn in the same period last year. Net profit from financial trading rose from Es1.1bn in the first three quarters of 1995 to Es7.5bn, reflecting a buoyant Portuguese bond market.

BPI's long-term strategy of increasing income from fees and commissions was reflected in a rise in earnings in this area from Es5.5bn to Es6.3bn. But analysts said an increase in costs in relation to net income – excluding trading gains – was a negative sign at a time of strong competition between newly enlarged banking groups in Portugal. BPI more than doubled its total assets by acquiring Banco Fomento e Exterior for Es209.2bn in September. BFE is to be consolidated into BPI's accounts from the fourth quarter of 1996. *Peter Wise, Lisbon*

Linde looks abroad for growth

Linde, the German industrial group, registered a slight improvement in profits for the nine months to end-September, on a 6.8 per cent increase in sales to DM6.38bn ($4.2bn). Mr Hans Meinhardt, chairman, declined to detail earnings figures, but said overall results had been held back by a decline in domestic demand and mixed growth in the rest of Europe. However, he reiterated that full-year profits were expected to be moderately higher than last time, and that sales would climb about 5 per cent to around DM8.7bn.

"Declines on the domestic market will be offset by higher profits abroad," Linde said. While it remained cautious about the German economic outlook, it expected growth in the rest of Europe to pick up in the next few months. Group new orders edged up 1.8 per cent to DM6.44bn in the nine months, with its biggest divisions – fork-lift trucks and industrial gases – hardest hit by the slump in German demand. Fork-lift trucks, where Linde is the global market leader, lifted sales 9.8 per cent, but orders dropped 3.4 per cent. Turnover in industrial gases rose 1 per cent. Sales and orders in refrigeration systems and plant construction improved, with refrigeration showing double-digit percentage increases.

Mr Meinhardt said Linde was still considering expanding one of its existing divisions – most likely industrial gases – or establishing a fifth business area. He said the purchase could be worth as much as DM5bn, but declined to name a target company or a specific sector. "Priority will be given to the expansion plan, but this may change if an interesting acquisition comes up, and we may end up doing both," he said. *Sarah Althaus*

Duo tightens grip on Sonofon

GN Great Nordic and BellSouth have bought out their partners in the Danish cellular telephone company Sonofon, which offers services in competition with the state-controlled telephone company TeleDanmark.

GN announced in August that it and BellSouth were buying out the Danish capital investment company Incentive's 15 per cent share. Yesterday it said they had acquired the 20 per cent stake owned by the NordicTel consortium for about DKr600m ($102.1m). GN said the new structure would improve Sonofon's opportunities for developing its business, which so far has about 500,000 cellular subscribers.

At the same time, the Sonofon management is being strengthened with the inclusion of Mr Robert Shingler, deputy general manager at BellSouth's European headquarters in Brussels. BellSouth and GN have agreed that if a competing company gains control of either of the partner companies, the buyer will be excluded from Sonofon's operations. *Hilary Barnes, Copenhagen*

Snecma clear on SEP stake

The French government has approved a plan by Snecma, the loss-making state-owned aero-engine maker, to lift its stake in SEP, the rocket engine manufacturer, from 51 per cent to 100 per cent.

Snecma said the move, through a public offer to minorities, would enable it to "consolidate the group's industrial and technological potential" in the context of European and international alliances. It would also assure the development of its brakes activities by combining the resources of SEP's Carbone-Industrie and Snecma's Messier-Bugatti. Subject to board approval, the offer is to be tabled before the end of the month. Terms have not yet been disclosed. Based on current share prices, SEP is valued at some FFr1.6bn ($308.4m). *David Owen, Paris*

Klöckner-Werke breaks even

Klöckner-Werke, the German engineering group, said it broke even, as expected, in the year ended September 30 after a loss of DM210m ($138.8m) the year before. "All business divisions improved considerably from the previous year," the company said. Sales rose 3 per cent to DM4.5bn. *Reuter, Duisburg*

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Plot thickens in struggle for Astra control

Mr Teddy Rahmat, president director of Astra International, the Indonesian cars-to-plantations conglomerate, did not sound like a man under siege earlier this week. "Throughout my career at Astra, I've never been so optimistic about the future," he said.

But Mr Rahmat's optimism was anything but infectious. Analysts have cast doubt on the surprisingly upbeat earnings predictions Astra unveiled this week.

The forecasts came as investors puzzled over Astra's future in what looks increasingly like a struggle for control of the company between powerful business groups.

The affair prompted state secretary Mr Moerdiono yesterday to announce that the government would not allow Astra to be dominated by any "particular family business or special business group" with more than a 10 per cent stake.

Nevertheless, Mr Mohamad Hasan, a close associate of President Suharto and commissioner of Nusamba, an investment company owned by groups linked to the president's family, has been quoted in local newspapers as saying Nusamba aims to control "at least 10 per cent" of the country's largest car assembler. He has also hinted that Nusamba's stake will signal a change in management.

Until yesterday, Mr Putera Sampoerna and the listed clove cigarette company he controls, Hanjaya Mandala Sampoerna, had a joint holding of 13 per cent, although other Astra shareholders put Mr Putera's personal stake through nominee holding companies nearer 25 per cent. HM Sampoerna yesterday confirmed reports that it had sold its own 2.85 per cent stake in Astra.

While no-one is sure why some of Indonesia's most powerful businessmen are buying into Astra, there is a widespread belief the company will face restructuring if Nusamba takes a stake – either in the form of asset-stripping or the injection of new assets. Mr Hasan says that, with other majority shareholders of Astra, he will "improve the direction" of the company. This has served only to increase speculation.

Astra has been proceeding with its own divestment programme in order to pay off debts: the company's debt-to-equity ratio is more than 200 per cent. And management has said it plans to hold separate initial public offerings in the near future for three of the company's divisions – Bank Universal, the agribusiness unit, and the components division.

There is concern, however, that if Nusamba takes control, these will be sold off in private placements rather than initial public offerings. Investors will not have forgotten that Indonesian companies have set worrying precedents in their treatment of minority shareholders' rights.

Hanjaya Mandala Sampoerna, the Indonesian clove cigarette manufacturer, said it had sold its stake in Astra International, the country's largest car assembler, on Tuesday this week, writes Manuela Saragosa.

The company said the 33.18m shares – representing 2.85 per cent of Astra – were sold for Rp165.9bn ($71.4m), or Rp5,000 a share. The company bought the shares for Rp157.6bn, or Rp4,750 each.

Sampoerna said it had sold its stake "after internal discussion and consultation with our share- and bondholders".

One theory is that groups linked to the presidential family may be interested in making use of Astra's car assembly and distribution facilities for the "national" car project.

Astra is the sole distributor and assembler of Toyota, Daihatsu, BMW and Peugeot cars and Honda motorcycles in Indonesia.

Under the policy, President Suharto's youngest son, Mr Hutomo Mandala Putra, was awarded tax and tariff breaks not available to established carmakers to build Indonesia's "national" car in co-operation with South Korea's Kia Motors. However, Mr Hutomo has no manufacturing facilities in place yet.

But analysts have also speculated that the Salim group, which assembles Nissan, Suzuki and Volvo cars through its company Indomobil, and holds 4.57 per cent of Astra's shares, may have ambitions to use Astra's facilities.

Mr Hasan has said he intends to act with a consortium of Astra's largest shareholders, including Mr Prajogo Pangestu, a timber tycoon; the financial services conglomerate Danamon Group; and the chief executive of the Salim group, Mr Anthony Salim.

> 'I've never been so enthusiastic about the future' – Teddy Rahmat, president of Astra

Meanwhile, it remains unclear whether Mr Sampoerna is warding off a Suharto family bid for Astra and what his motive would be in doing so. As one analyst at a European brokerage says: "It is inconceivable in Indonesian politics that anyone would challenge the first family."

But that would change if Mr Putera Sampoerna were backed by powerful business groups. Officials at Toyota Motor Corporation, which has an 8.26 per cent stake in Astra, have said they are "aware of speculation" surrounding Mr Sampoerna's moves and "are watching it with interest".

Mr Hasan, who at first denied that Nusamba was planning to take a big stake in Astra, has since apologised for misleading the public and other shareholders about his intentions. In the meantime, the affair has done little to inspire confidence in Astra's future.

Manuela Saragosa

Negara in demand

The foreign tranche of shares in Bank Negara Indonesia, the state-owned bank due to be listed on Indonesia's stock market late next month, was seven times oversubscribed as of yesterday, writes Manuela Saragosa.

Sources involved in underwriting the issue, which is set to restore momentum to the country's privatisation programme, said foreign interest was high ahead of the shares' pricing, which will be announced today.

The choice of a bank to follow the difficult listing of the state-controlled telecommunications company last year was initially questioned, because Indonesia's state banking sector is still reeling from recent bad debt scandals.

BNI plans to list 1.085bn shares, or 25 per cent of its paid-up capital, on November 29. The offer period for the shares will be November 6-November 11.

Pacific Dunlop sells pacemaker unit

By Nikki Tait in Sydney

Pacific Dunlop, the Melbourne-based conglomerate, has found a buyer for its Telectronics Pacing Systems unit, ending its ill-fated foray into the manufacture and marketing of implantable medical products.

The company said Telectronics, a Denver-based manufacturer of heart pacemaker products which it acquired in 1988, is being sold to St Jude Medical, the US medical products group.

The initial purchase price is US$135m, but Pacific Dunlop said there was a further "earn-out" provision which could add up to US$25m to the price by 2002. The earn-out is tied to future sales, and the entire sale agreement is subject to US regulatory review.

Telectronics became a big problem for Pacific Dunlop almost two years ago when it was revealed that faulty pacemaker leads in certain products had caused injuries in implanted patients. In a couple of cases, pacemaker recipients died.

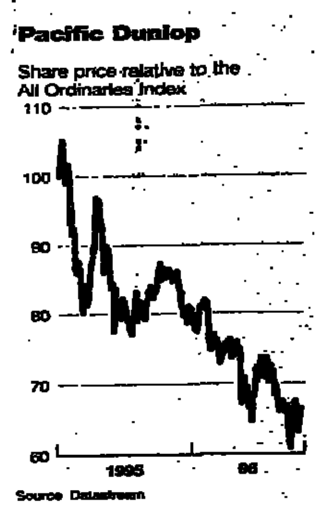
The stock market hammered Pacific Dunlop's share price as litigation loomed, and for almost a year Telectronics was suspended from manufacturing for the US market under a consent decree with the US Food and Drug Administration.

An initial provision of A$19m (US$15m) was made to cover legal costs, and a further A$40m was taken to cover the expenses of patient care and monitoring. The manufacturing suspension caused Telectronics to incur a A$164m loss from operating activities in 1995-96.

Yesterday, Pacific Dunlop said it would retain all responsibility for products made before the sale. The Accufix Research Institute, set up to deal with the regulatory and clinical issues arising from the faulty leads, is now covered by an extra provision of A$85m made in 1995-96.

Pacific Dunlop still faces extensive legal action, mainly in the US, related to the faulty leads. However, earlier this year it managed to "decertify" a class action, meaning it can now deal with the liability claims on a case-by-case basis. In July, there were said to be about 300 cases pending – some "fear of failure" claims rather than suits filed after injury.

The Telectronics' experience has prompted Pacific Dunlop to pull out of medical products. Last year it floated off its Cochlear unit, which makes and markets an implantable hearing system for the nearly-deaf.



Normandy may seek North American listing

By Nikki Tait

Normandy Mining, the Australian gold mine group, is likely to seek a listing on a North American exchange next year, as part of a drive to increase overseas awareness of the group.

The news came as the company – the fifth-largest gold producer outside South Africa – yesterday announced after-tax profit of A$20.5m (US$16.3m) for the first quarter, a result it admitted was below target.

Total attributable production in the three months to end-September was 313,209 ounces, while mine operating costs stood at A$360 an ounce.

Normandy blamed the profits shortfall largely on production problems at the Mt Leyshon and Bounty mines. The depressed zinc price also held back earnings from its base metal interests.

However, it held out the prospect of better results later in the year, as the Goldfields gas and power project in Western Australia comes on stream and production begins at the Vera-Nancy mine in Queensland. The LaSource mines in Africa will also be consolidated in the second half.


Reuter

Robert Champion de Crespigny: 'not at all happy'

Mr Robert Champion de Crespigny, chairman, told the annual meeting the board was "not at all happy" with the share price, and acknowledged that the "re-rating", forecast when Normandy began a merger of some interests with those of three related companies last year, had not materialised. The North American listing plan aimed to remedy this.

The chairman also accepted that there was a perceived share "overhang" resulting from an 11.8 per cent stake held by Newcrest Mining. The smaller Australian gold mining group tried to join the Normandy merger, but was rebuffed and ended up with a heavy loss on its investment in Normandy and one of the related companies.

Newcrest is now widely expected to sell the stake.

● **Placer Pacific**, the Australian-listed gold mining group controlled by Canada's Placer Dome, announced after-tax profit of A$28.1m for the nine months to end-September, down from A$46m in the same period of 1995.

It said a 17 per cent rise in revenues had been offset by higher gold production costs, lower margins from copper and reduced interest income.

Santander poised for Mexican deal

By David White in Madrid

Spain's Banco Santander is on the verge of concluding a deal to take control of Banco Mexicano, the fifth largest bank in Mexico in terms of assets.

An official announcement is thought to be imminent, although Santander said yesterday it could not comment on the negotiations.

Santander is expected to take a stake of about 75 per cent, in a deal involving recapitalisation of Banco Mexicano and an agreement with the Mexican authorities to clean up the bank's balance sheet by transferring some $3bn of non-performing loans to the country's deposit insurance fund.

This arrangement would be similar to the scheme agreed last year by Santander's Spanish rival Banco Bilbao Vizcaya when it assumed control of Mexico's troubled Probursa banking group.

Banco Mexicano would be the second Mexican bank to come under majority Spanish ownership. The remaining shares would be held by the current owners, Grupo Financiero Invermexico.

Mr Carlos Gómez y Gómez, director of the Mexican group, was quoted by the AP-Down Jones news agency yesterday as saying the link with Santander was "a done deal".

The agreement, which has been under negotiation for several months, follows a setback in Santander's bid for Banco de Venezuela, the country's second-largest bank. A privatisation tender was due to be decided in August but was postponed at the last moment amid a legal wrangle.

Santander, the largest of Spain's banking groups, has been the most aggressive in its approach to Latin American markets, where it has already built up interests with a book value of $1.56bn.

Its biggest venture in the region is in Chile, where it has invested $500m in a merger between its local operation and the former Banco Osorno, announced in April. The deal gave it 75 per cent of the joint unit, with assets of close to $8bn and a network of 240 branches.

Although it is thought to involve a smaller financial outlay, the acquisition of Banco Mexicano is seen as one of the most important steps the Spanish bank has taken internationally.

Last year it bought two banks in Peru, Banco Interandino and Banco Mercantil, now merged to form Banco Santander Peru. More recently it took over the main Puerto Rican retail banking subsidiary of Banco Central Hispano.

Du Pont third-quarter earnings up 20%

By Tracy Corrigan in New York

Du Pont, the US chemicals group, increased third-quarter earnings per share by more than 20 per cent on the previous year, with only a 3 per cent increase in sales, after strong oil prices lifted profits from its petroleum business, Conoco.

Analysts had upgraded their forecasts following a company announcement last month that third-quarter earnings would be at least 10 per cent above expectations because of strong results in upstream petroleum operations. Earnings per share of $1.60 came within a few cents of the revised forecasts.

Net income was $898m, up from $769m in the third quarter of 1995. The company took an after-tax, non-recurring charge of $47m to cover crop damage claims and legal expenses related to the recall of its Benlate fungicide. Without the charge, earnings per share would have been 8 cents higher.

The strongest performance came from Conoco, with third-quarter earnings of $256m, up from $174m in 1995. Upstream operations earned $163m, almost double last year's $83m because of higher prices and production cost controls.

Du Pont's chemicals performance was mixed, with improved results for speciality chemicals only partly offsetting lower earnings for white pigments. Earnings from its chemicals division fell to $138m in the third quarter, from $160m, as higher volume failed to compensate for lower selling prices.

Unusually strong agricultural products sales contributed to a 15 per cent rise in earnings at Du Pont's diversified businesses unit. A better performance from nylon and Lycra helped lift fibres earnings by 9 per cent to $206m, despite lower polyester prices. Strength in automotive products pushed polymers earnings up 9 per cent.

"Total return to Du Pont shareholders has been about 40 per cent so this year, well above industry averages," observed Mr John Krol, president and chief executive officer.

The company's reduced equity base as a result of share repurchases has helped increase earnings per share.

John Krol: return to shareholders above industry averages

US pensions groups attack equity-fund fees

By Tracy Corrigan

US public pension funds, which have frequently criticised publicly the managers of poorly-performing companies in which they hold shares, yesterday hit out at a new target: private equity funds, such as leveraged buy-out and venture capital funds.

The pension funds are concerned that the fees charged by private equity funds, which are typically structured as partnerships, are too high, in some cases reaching as much as 20 per cent.

A study by pensions consultant William M Mercer, commissioned by nine US public pension funds, suggests a range of measures for improving the way that terms and conditions are set.

"The private equity market has become a $100bn business, yet terms and conditions in this industry have not changed much in 20 years," said Ms Sheryl Pressler, chief investment officer of the California Public Employees' Retirement System (Calpers), the country's largest public pension fund.

Collectively, the nine funds that commissioned the report represent $500bn in assets, of which more than $20bn is in private equity – capital held in private companies.

The large size of these particular funds gives them considerable market power, which some funds have already used negotiate lower fees.

However, because of the strong performance of many of these private equity funds and the relatively limited opportunities for investment, there is some competition for investment in the best-known funds.

High fees do not seem to have proved an obstacle to raising money for new funds. Kohlberg Kravis Roberts, for example, recently raised $5bn.

But Mr Gregory White, executive director of the Massachusetts Pension Reserves Investment Management Board said that millions of dollars could be saved "by creating best practices in compensation structure and accountability".

The nine funds have constructed model contract terms and a computer software package to help other investors analyse the impact of terms and conditions.

Sun Microsystems launches network computer

By Louise Kehoe in San Francisco

Sun Microsystems will next week launch a new range of "Java" computers, including a network computer called the JavaStation that it claims will sharply reduce the cost of running an office computer network.

Industry estimates the cost of administering a single PC linked to an office network at about $12,000 a year. Sun says a JavaStation will cost only about $2,500 to administer, slashing costs for large companies with thousands of desktop PCs.

The new computer is expected to sell for less than $1,000.

Network computers (NCs), or "thin-clients" as Sun prefers to call its new computers, are simplified desktop computers with no disk drives. Programs and files are stored on a central server and distributed via a network.

Unlike Oracle, which has promoted network computers for home use, Sun is focusing on business applications. Sun also emphasises the use of its Java programming language, which is gaining support among software developers; Java enables programmers to write a single version of a program that will run on all types of computers.

Sun is also expected to introduce a Java Server, as well as software and services for companies setting up networks.

"This is a new way of doing computing," said Mr Zander. "We are on the brink of a computing model that we believe will be every bit as significant as the launch of the PC in the late 1970s and early 1980s."

While Sun does not predict that the network computer will eradicate the PC, the company says that NCs will win out in many shipping companies, banks, brokerages, shops and insurance agencies where PCs are currently used for relatively simple functions.

Sun expects that JavaStations will also be used to replace dumb terminals – desktop terminals linked to mainframe computers. There are an estimated 35m such terminals in use worldwide.

Nissan to increase production in North America

By Michiyo Nakamoto in Tokyo

Nissan Motor is to increase production in North America by 150,000 units over the next three years, in a move to support its sluggish Mexican operations and lift sales in the US by nearly 17 per cent.

Japan's second largest carmaker plans to increase sales in the US to 900,000 units by 2000, from 770,000 last year.

Production of the Sentra compact saloon will shift from Nissan's Tennessee plant to its facility in Mexico, which makes a small proportion of Sentras sold in the US. Capacity utilisation in Mexico has been running low, due to the difficulties faced by the Mexican economy.

Last year Nissan produced about 100,000 vehicles in Mexico against a production capacity of 270,000. As a result of the move, the plant will produce all Sentras for the US market by the end of the decade.

The capacity released at Tennessee, which Nissan says has been running "at full speed in the last few years", will be available to produce a new, as yet unspecified, model and increase production of other models.

By introducing new models to Tennessee, Nissan hopes to raise sales without additional investment in capacity. The company has a policy of not expanding capacity overseas for the time being.

Nissan, which has enjoyed buoyant demand for its Pathfinder sports utility vehicle and Altima models in the US, has faced a difficult task of rebuilding its operations in Mexico, which had been battered by the after-effects of the peso's devaluation.

The company's Mexican operations lost Y65bn ($575.8m) in the year to March 1996, making up a significant part of the Y223.3bn consolidated recurring loss Nissan suffered last year.

The company plans to return to the black in the year to next March, but has said that success depends primarily on Mexico.

The latest move indicates Nissan is addressing its Mexican problems along the lines that Mr Yoshikazu Hanawa, the company's president, outlined earlier this year. Mr Hanawa said the company planned to rebuild its Mexican operations by positioning them as an export base for the US market.

AMERICAS NEWS DIGEST

Unisys in the black in third quarter

Unisys, the struggling US mainframe computer company, announced third-quarter net income, before payment of preferred share dividends, of $14.2m, or 9 cents a share, compared with a net loss of $32.2m, or 36 cents, in the same period last year. Revenues were $1.63bn, up 9 per cent from $1.49bn last year.

Revenues increased in all three of the company's business units – computer systems, systems maintenance and systems integration services – said Mr James Unruh, chairman and chief executive. Services now represent 63 per cent of Unisys' business, up from 50 per cent about two years ago.

In the computer systems sector, Unisys said it was "on plan" to meet a revised schedule to ship a new generation of high-end computer systems, starting next month. The delay will, however, prevent the company from achieving the hoped-for level of profitability, said Mr Unruh.

Expenses declined by 7 per cent in the third quarter to achieve an expense-to-revenue ratio of less than 22 per cent, the lowest in more than three years.

Louise Kehoe, San Francisco

Rockwell in India buy

Rockwell International, the US engineering multinational, is establishing a presence in India's fast-expanding motor industry through the purchase of Bangalore-based Autarky Auto Products, which supplies window regulators to India's vehicle market leader, Maruti/Suzuki. Terms of the deal were not disclosed. Autarky is to become part of Rockwell's Light Vehicle Systems division, which operates seven businesses on a global basis, with a combined turnover of $1.3bn.

Rockwell has been active in India for a number of years, in the truck, automation, avionics and semiconductor sectors. However, this is its first venture into mainstream car components supply in the country. The acquisition is in line with Rockwell's globalisation programme for its motor components business, and Mr Don Davis, Rockwell president, indicated that more would follow.

The US group is also expanding its automotive operations in South Korea, through the acquisition of Han Kyung, which supplies sunroofs to the principal Korean vehicle makers.

John Griffiths

Netscape quadruples sales

Netscape Communications, the US Internet software pioneer, more than quadrupled its sales in the third quarter, and reported earnings slightly higher than expected. Revenues for the quarter were $100m, against $23.3m in the third quarter last year, and up 33 per cent from the second quarter.

Net income rose to $7.6m, or 9 cents a share, from $175,000 a year ago. Analysts had projected earnings of about 8 cents a share. In the second quarter of this year Netscape recorded net income of $906,000, or 1 cent a share.

Netscape went public in August 1995, only 16 months after it was founded. The third-quarter results mark the first time that year-on-year comparisons have been available, and confirm Netscape as the fastest growing software company in industry history. Its growth reflects the rapid adoption of Internet technology as the basis for corporate "intranets", as well as the rising popularity of the public Internet.

Although best known for its Internet browser program, Netscape Navigator, the company derived much of its third-quarter revenues from sales of browsers and server software used in corporate intranets. "The third quarter of 1996 was an other landmark quarter for Netscape," said Mr Jim Barksdale, president and chief executive.

Netscape is now facing intense competition from Microsoft, which has launched its own Internet browser and server products. However, Netscape holds a commanding lead in the market for Web server software used on the Internet and in corporate intranets, according to a recent study by Zona Research, a US market research group. Zona found that Netscape has a 74 per cent share of the market for server software running on the Microsoft Windows NT operating system and an 84 per cent share of the Unix server market.

For the year to date, Netscape's revenues were $231m, against $44m in the same period last year. Net income was $12.1m, or 14 cents. For the first nine months of 1995, Netscape posted a loss of $7.1m, or 10 cents.

Louise Kehoe

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Americans face dazzling choice of toothpaste

Procter & Gamble and Colgate-Palmolive are set to launch new products, writes **Richard Tomkins**

First it was fluoride: next came gel, tartar control, baking soda and peroxide. Now, the choice of toothpastes faced by Americans is almost as dazzling as their teeth.

The choice is about to get harder still: both Procter & Gamble and Colgate-Palmolive, the market leaders, are set to launch new products in a battle for the hearts and gums of consumers.

Procter & Gamble has the the best-selling toothpaste in the US with its Crest brand, but has nevertheless been losing market share. It aims to put that right with a new Crest product due to be unveiled this month.

However, Procter & Gamble could face tough competition from Colgate-Palmolive, number two in the US market, which is waiting for the Food and Drug Administration's final approval for Colgate Total – a product that has already done well in other markets.

A few decades ago, toothpaste was just a minty-flavoured cream with little or no therapeutic value. The market was dominated by Colgate-Palmolive, which introduced toothpaste in a tube 100 years ago.

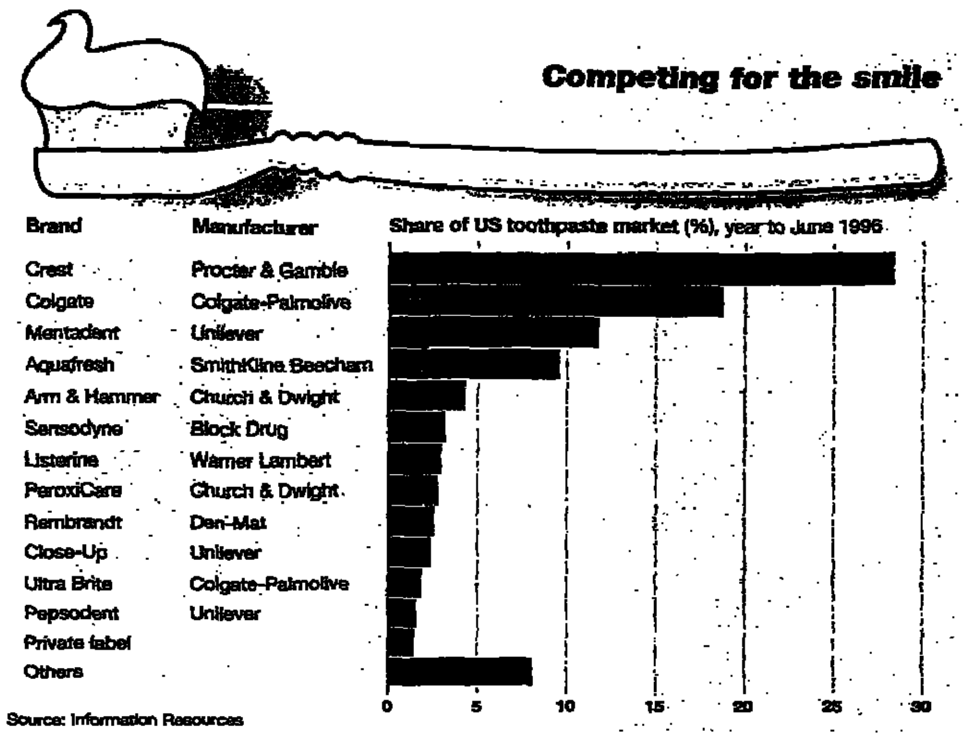
A big change came in 1956 when Procter & Gamble came up with a fluoride toothpaste, Crest, and introduced it to the US market under the slogan: "Look Mom, no cavities!". Within a few years, Crest had become the best-selling US toothpaste.

Crest's big selling point was that its fluoride content helped stop tooth decay. It was the first time a toothpaste had gone on the market with a proven therapeutic value.

Fluoride toothpastes soon dominated the market. But more recently, as the baby boom generation has aged, the number of Americans in the cavity-prone ages of 5 to 19 has gone down, while the number of Americans who are old enough to worry about losing their teeth altogether has gone up.

Toothpaste manufacturers have sought to address these concerns with a wave of new products aimed at countering gum disease, or gingivitis. In the 1980s, tartar control toothpastes started to appear, usually containing pyrophosphate as the active ingredient. This can reduce tartar, but does not remove it altogether.

The next wave of new products, starting in the late 1980s, featured baking soda or a cocktail of baking soda and peroxide. Peroxide is a whitener, which appeals to baby-boomers with yellowing teeth, but these toothpastes succeeded largely because of a an unfounded belief that baking soda was in some way good for the teeth and gums.



Source: Information Resources

This belief was encouraged by the tingling, effervescent sensation that baking soda and peroxide toothpastes deliver, leaving people with a fresh-feeling mouth and the impression that their teeth and gums have been thoroughly cleaned.

Mr Ian Cook, Colgate vice-president for US marketing, says baking soda and peroxide toothpastes now account for more than a third of the $1.8bn-a-year US toothpaste market. "That's quite a major shift in the marketplace. Those toothpastes have fuelled the category growth, both in volume and dollar sales."

However, not all manufacturers have benefited alike. Unilever, the Anglo-Dutch consumer products group, made spectacular inroads into the US toothpaste market by being quick off the mark with Mentadent, a baking soda and peroxide product. Mentadent's market share has shot from nowhere to 12 per cent in just three years.

This has been at the expense of Colgate, which only introduced a baking soda and peroxide toothpaste early last year: and even more, at the expense of Procter & Gamble, which still does not have a baking soda and peroxide product.

Procter & Gamble acknowledges that it has been slow off the mark. "Our dollar share of the market has fallen by 7 per cent in the past 12 months. This is not acceptable to us, and we are working hard to make up the lost ground," the company said.

Probably, Procter & Gamble's secret weapon in the next round of the toothpaste war will be a belated baking soda and peroxide product, but one containing a secret ingredient to address the latest toothpaste trend: gum care products that make therapeutic claims.

Colgate's Total, which has already won preliminary FDA approval, contains triclosan, an anti-bacterial substance said to be effective in combating gum disease, and a polymer that bonds the triclosan to the teeth so that it keeps working between brushings.

Ms Brenda Lee Landry, an analyst at Morgan Stanley, says one reason for the acceleration of new product activity is that, in spite of the competition, toothpaste remains a high-margin business in which own-label products have failed to much of an in-road.

"Private label has been held at bay because nobody wants to be cheap and then have kids' teeth drop out four years later, or something like that," she says. "The therapeutic qualities are very important, so manufacturers feel they can get a jump on each other."

Canadian oil groups mixed

By Robert Gibbens in Montreal

PanCanadian Petroleum, the energy arm of Canadian Pacific, benefited from higher third-quarter oil prices and posted net profit of C$71.6m (US$53.21m), or 57 cents a share, up 43 per cent from C$50.2m, or 40 cents, in the year-ago period.

Revenues were C$545m, up 20 per cent.

Oil output averaged 128,000 barrels daily, up 7 per cent, and natural gas output rose 8 per cent.

Profit at the nine-month stage was C$223.6m, or C$1.78 a share, on revenues of C$1.8bn. This compares with C$192.6m, or C$1.54, on revenues of C$1.3bn a year ago.

PanCanadian operates in the upstream sector only. Imperial Oil and Shell Canada, both large integrated companies, were hit by tighter downstream margins in the third quarter.

Imperial Oil earned C$99m, or 58 cents, down from C$138m, or 72 cents, a year earlier, on revenues of C$2.6bn, up 8 per cent.

Profit at the nine-month level was C$588m against C$421m. The 1996 period included a C$250m tax refund.

Shell Canada earned C$73m, or 65 cents, down from C$88m, or 87 cents a year earlier, on revenues of C$1.36bn, up 10 per cent.

Nine-month profit was C$253m against C$448m, which included a C$95m special gain.

Dean Witter beats forecasts

Dean Witter Discover, the US stockbroking and credit card group, beat analysts' forecasts for the third quarter with net earnings of $239m, or $1.41 a share, compared with $219m, or $1.23, AFX-News reports from New York. The consensus forecast was $1.37.

Revenues rose 5 per cent to $1.53bn.

Securities earnings of $119m were 12 per cent higher than the $106m in the 1995 third quarter, while credit services earnings rose 7 per cent from $112m to $120m.

In the securities business, third-quarter asset management and administration fees increased 15 per cent from the last year's third quarter, to $288.8m.

Assets under management and administration rose to $86.5bn, up $10.1bn from the end of last year's third quarter and up $7bn from the 1995 year-end.

Total client assets increased by more than $5bn during the quarter to $239.7bn and were 12 per cent above September 30 1995.

Dean Witter added 139,000 client accounts in the quarter and 466,000 in the year to date – the highest nine-month total ever, it said.

The profit margin increased from 13.8 per cent a year ago to 15 per cent.

In credit services, managed loans were up $5.6bn to $33.8bn, a 20 per cent increase from the third quarter of 1995.

AMERICAS NEWS DIGEST

Acquisition lifts Air Touch to $47m

The purchase of Cellular Communications in April helped AirTouch Communications, the US telecommunications company, improve third-quarter net income from $47m, or 9 cents a share, to $59m, or 10 cents. Revenues rose from $414.7m to $800.7m. AirTouch said it expected operating cash flow to approach $1bn during the year because of the improving performance of international operations and the benefits of scale and scope from acquired businesses. In the third quarter, operating cash flow rose 97 per cent to $327.5m. In 1995, the company had net income of $131.9m, or 27 cents a share, on revenues of $1.6bn.

The company also said it expected to incur $130m costs during the year from continued construction and build-out costs for start-up operations in Italy, Poland, Spain, South Korea and India. Original costs were estimated at $100m, but the company encountered stronger-than-expected subscriber growth and ownership increases. AirTouch said capital requirements for the year would reach about $1bn as it expanded its operations.

AirTouch added 518,000 cellular and paging customers during the quarter, reaching 7.2m worldwide customers. The company added 151,000 US cellular customers and 242,000 international cellular customers during the quarter. It attributed the strong international growth to marketing programmes. *AP-DJ, San Francisco*

Sara Lee upbeat

Sara Lee, the US consumer products group, said it expected earnings and sales to continue at record levels throughout 1997. Mr John Bryan, chairman, said: "A combination of internal growth and acquisitions contributed to our sales and operating profit gains during the first quarter."

The group announced a 5 per cent rise in first-quarter sales, to $4.88bn, giving net income of $198m compared with $179m in the 1995 first quarter. Operating profits at packaged meats and bakery sales rose "significantly" during the first quarter, up 17 per cent and 19.2 per cent respectively, aided by base business growth and the acquisition of Aoste, the European meats company bought in July.

Sara Lee's household and bodycare division posted a 7.3 per cent increase in operating profits for the quarter, while sales were unchanged from the same period last year. It said the division was boosted by a strong performance in the direct selling division, higher profitability in core categories and contributions from Delial and other brands. *AFX News, New York*

Phillips Petroleum sets record

Record third-quarter net profits, up 88 per cent to $187m, or 71 cents a share, set the stage for an "outstanding" year at Phillips Petroleum, the Oklahoma oil group, Mr Wayne Allen, group chairman, said yesterday. Operating income from exploration and production almost doubled in the period as prices increased and gas output rose. However, earnings from refining and marketing fell slightly as petrol margins shrank.

Earnings at nine months, which have been boosted by a one-off $565m gain, rose to $4.20 a share from $1.37 last time. Excluding special items, net operating earnings rose 42 per cent to $639m on revenues up 10 per cent at $11.5bn. *Christopher Parkes, Los Angeles*

Emap boardroom rift exposed

By William Lewis and Christopher Price

The board of Emap, the publishing, exhibitions and radio group, has been riven by dispute and mistrust for several years, according to documents passed to an institutional shareholder and seen yesterday by the Financial Times.

Relations between Mr Robin Miller, chief executive since 1985, and Mr David Arculus, group managing director since 1990, have been strained for several years.

There has also been a long-running conflict between Emap's executives and non-executives. However, Emap has had one of the most impressive growth records on the UK stock market throughout.

Emap's board was last night meeting to discuss Sir John's future, following concerns about what he is alleged to have said to shareholders and board members on new procedures for removing directors.

Several directors, including Mr Arculus, are thought to have expressed concern before the meeting at the way Sir John and Mr Miller handled the change in the articles.

Documents show that the dispute between Mr Miller and Mr Arculus first came to a head in 1991 when directors met under the chairmanship of Mr Ross Russell to discuss the problem.

Mr Ross Russell said that "it is a problem which we have had for some years and have up to now been prepared to live with, since we thought on balance the benefits to the company of retaining two very able people was worth the hassle of putting up with a degree of tension".

He added that tensions between Mr Miller and Mr Arculus "in their daily running of the company are too apparent" and that it was "not particularly pleasant for a chairman to have his two senior executives declared contenders for his job". Mr Ross Russell said he would find working with Mr Miller "a great deal easier without the influence of Mr Arculus as a sort of Banquo's ghost in the background".

Crossed wires in the City for CWC

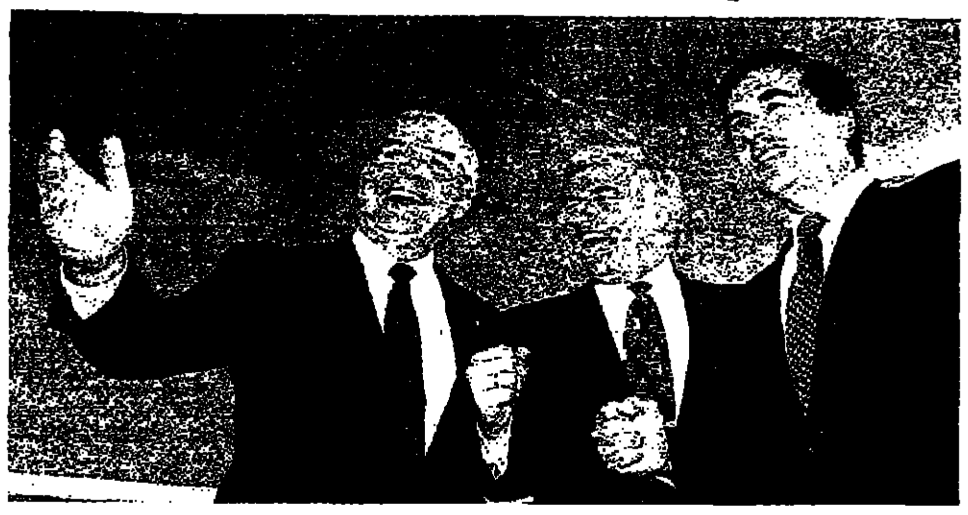
Analysts fail to agree on the value of the new group, writes Christopher Price

Cable and Wireless's dramatic deal on Tuesday to create the UK's biggest cable company may have boosted the profile of the much criticised industry, but has failed to unite City opinion over its future prosperity.

Analysts, denied the luxury of any pro-forma figures from the new grouping of Mercury, Nynex CableComms, Bell Cablemedia and Videotron, were yesterday producing a wide variety of financial forecasts and valuations for Cable and Wireless Communications, the new holding company.

The breadth of market opinion is symptomatic of the difficulties analysts and investors have had in valuing the cable sector, which has been lossmaking for several years. Revenue growth has been lacklustre, though it has recently shown some improvement.

Estimates of the current market value of CWC, due to be floated next year, vary from £4.2bn to £5.5bn ($8.58bn). A £5bn mid-range valuation is based on forecast earnings before tax, interest, depreciations and amortisation, (EBITDA) of about £900m in 1999, the first full year of operation for the new company. This would put it on a prospective multiple of over 6 times, akin to some of the US long-distance telecoms operators and reflective of the telecoms dominance of the new company.



Malcolm Watson

In unison: Derek Burney of Bell Canada (left), Richard Brown and Nynex' Fred Salerno

The top end of the range is reached by those accepting the valuations put on Tuesday's deal by the participants themselves.

Bell Cablemedia is buying a 60 per cent stake in Videotron Holdings while its parent, Bell Canada, is joining with C&W in making an offer for Bell Cablemedia, valuing the two cable companies at about £940m. Nynex CableComms is being subsumed into CWC at a value of about £1.46bn. C&W is paying £150m to buy the 5 per cent of Mercury it does not own from Bell Canada, implying a value of £2.9bn for Mercury as a whole. That gives a total value of about £5.3bn.

Some analysts have added synergy savings – privately estimated by C&W at £150m a year – into their estimates to take them to the top of the range.

The valuation put on Mercury particularly excited many in the City as it was some 20 per cent higher than many analysts' estimates and was one of the chief causes of the surge in C&W's share price on Tuesday.

Two other aspects of the deal also bolstered C&W's reputation, and particularly that of Mr Richard Brown, the new chief executive. First was the relatively small amount of cash – £360m – C&W put in to secure management and ownership control of a company worth over £4bn.

Second was the strategic potential of the alliance. The deal has obvious attractions to all parties. Mercury, which already has 740,000 residential telephone customers, gains access to the three cable companies' current 555,000 phone subscribers, as many television customers and, more importantly, the 6m potential customers in the cable franchise areas.

Furthermore, Nynex, Bell and Videotron, the second, third and seventh largets UK cable companies, cover the potentially lucrative conurbations of London, Manchester and Liverpool.

The cable groups, which are all lossmaking, gain a cash-rich partner to help finance the completion of the three networks. Bell still has 73 per cent of its network to build, Videotron 69 per cent and Nynex half. Analysts estimate a further £2.5bn will be required.

Detailed forecasts for the new company's profit-and-loss account suggest in 1997-98 revenues will range from £2.4bn to £2.7bn. Estimates of EBITDA lie at £671m-£771m. Pre-tax profits forecasts vary between £112m and £195m, with the group able to take advantage of the cable companies' tax losses. Interest payments on the estimated £1.7bn to £1.9bn of debt are forecast at about £120m a year.

All the analysts agree, however, that the deal will be earnings-dilutive for C&W – which will hold a 53 per cent stake in CWC – although again the figures vary between 7 and 15 per cent in the first year.

"Earnings dilution is the only snag to the deal," says Mr Paul Norris at Lehmans, adding that "much will depend on the speed at which they are able to effect synergy savings." He has factored in savings of £25m in the first year.

As important in the longer-term will be CWC's ability to break through the persistent low penetration levels and high churn rates in the cable industry. Mr James Ross at ABN Amro Hoare Govett, believes the combination of synergies, Mercury's marketing expertise and financial muscle will allow CWC to exploit its new critical mass: "CWC is a high growth hybrid and the upside is tremendous."

MGAM may lose £200m contract

By John Gapper in London and Bernard Simon in Toronto

Morgan Grenfell Asset Management, the troubled fund management company, may lose a £200m ($312m) mandate to manage pension funds for Westminster City Council as a result of a failure to control the unit trust manager Mr Peter Young.

Westminster is to ask other fund managers to tender for the contract to manage half of its £400m pension fund. These funds have been managed for the past two years by Ms Nicola Horlick, head of MGAM's UK institutional business.

The Westminster decision is the first indication that troubles in its unit trust arm could affect the far larger UK institutional business.

Morgan Grenfell, which last week dismissed Mr Keith Percy, the former chief executive of MGAM, along with four colleagues, has insisted that pension funds have no reason to fear similar failings in the rest of its business.

Mr Cyril Nemeth, chairman of the investment committee, said that councillors were concerned by the affair. "We do not want our pensions exposed to any similar nonsense, and we felt it right to look at alternatives," he said. It was possible that MGAM might be re-appointed.

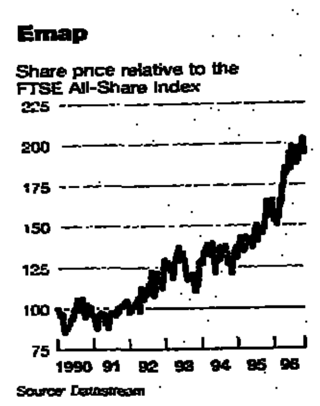
Separately, Morgan Grenfell has been accused by a Canadian company of failing to honour an alleged commitment made by Mr Young to invest up to C$20m in the company.

The claim has come from Ukraine Enterprise Corporation, which was trying to raise C$44m of equity by a listing on the Alberta Stock Exchange.

MGAM said last night that it was wrong to suggest there had been any firm or binding commitment to invest the money.

LEX COMMENT

Emap



The tensions at the top of Emap are curious. So far as one can tell, they do not stem from any difference over corporate strategy. Rather, they appear partly driven by personalities and partly by a rather abstract debate over non-executives' rights. None of it seems to have much to do with Emap's performance, which has been consistently impressive – unruffled by the fact that the boardroom's restoration drama appears to have been rumbling on for years. But sadly, investors cannot afford to ignore the problem. There could yet be more substance than meets the eye. And even if not, the present set of strained relationships will not find it easy to survive their public exposure. If the breakdown of trust within the board can be mended, all well and good. But the repair-work will have to be convincing.

Moreover, it should now be obvious that the arguments over non-executives' rights were not just an arcane distraction. At a company like Emap, which trades on a highish rating and has grown mainly through acquisitions, management judgment is everything. However great investors' faith in the management team, a strong bunch of independent non-executives is still the best guarantee that past success and high expectations will not be allowed to go to the management's heads. Allowing non-executives to feel undermined may not be the source of all Emap's problems, but it is certainly the last thing investors need.

North American demand lifts WPP

By Jane Martinson

Strong demand in North America helped WPP, the world's largest marketing services group, lift third-quarter revenues by 8 per cent to £407m ($635m).

The shares fell 8p to 238p yesterday, however, as some analysts said they were expecting a continuation of the higher first-half growth rates of closer to 13 per cent.

Debt, which almost led to the collapse of the group five years ago, averaged £164m in the nine months, down 30 per cent.

Mr Martin Sorrell, the chief executive, said the group intended to reduce this to between £100m and £150m, a target which, he added, should be reached in a year.

WPP is considering some sort of special pay-out to shareholders, particularly in the form of a foreign income dividend.

Soft demand in Latin America and Germany was partly to blame for the third quarter slowdown.

Revenues rose 9 per cent on a like-for-like basis to £1.24bn in the first nine months. A stronger pound lifted the reported figure by 11 per cent.

Reported revenues from North America rose 16 per cent to £521m while those from Europe increased by about 5 per cent to £486.4m.

RESULTS

	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Davenport Knitwear ... 6 mths to June 30	4.7	(4.41)	0.622	(0.38)	24	(14.7)	-	-	-	-	9.6
Eleco ... Yr to June 30	25.6	(29.8)	0.667L♠	(0.3♠)	2.2L†	(0.7)	0.25	Jan 9	nil	0.5	nil
Ex-Lands Props ... Yr to June 30	14	(15.4)	0.055L♠	(1.03♠)	0.09	(0.91)	0.5	Dec 5	0.5	0.5	0.5
Navan Resources $ ... 6 mths to June 30	12.8	(13)	0.164	(5.24♥)	0.31L	(6.67)	-	-	-	-	-
Ocean Wilsons ... 6 mths to June 30	38.5	(38.7)	0.917	(4)	1.73	(6.14)	1	Nov 26	1	-	4.5
Ross ... 6 mths to June 30	13.1	(27)	0.292L♠	(2.41L♠)	0.25L	(1.72L)	nil	-	nil	nil	nil

Investment Trusts	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Contra-Cyclical ... 6 mths to Sept 30	33.59	(37.61)	0.349	(0.53)	4.36	(6.82)	2.25§§	Nov 29	2.25	-	9.5
Fleming Inc & Cap ... 6 mths to Sept 30	48	(45.5♣)	3.59	(3)	2.89	(2.6)	1.3§§	Dec 1	1.2	-	5.3
Fleming W'wide Inc	-	(-)	-	(-)	-	(-)	1§§	Dec 27			
Scottish Oriental ... Yr to Aug 31 ☆	113.09	(-)	0.196	(0.148)	0.79	(0.62)	0.46	Jan 23	0.43	0.46	0.43

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. $US currency. §§Second interim. ♣At March 31. ☆Comparatives for 28 weeks.

Slowdown warning from EDS

By Richard Waters

News that its growth would slow during the last four months of this year sent shares in Electronic Data Systems, the systems integration company spun off by General Motors in June, down nearly 20 per cent from $59½ to $47¾ during morning trading in New York.

In its first earnings announcement since becoming an independent company, EDS also registered a decline in profit margins for the three months to the end of September.

While revenues increased 16 per cent to nearly $3.6bn, operating income rose by only 9 per cent to $414m; operating profit margin fell nearly a percentage point to 11.6 per cent.

The Texas-based company said it had signed contracts covering $5.37bn of new business so far this year, compared with the $6.58bn in the first nine months of 1995.

The decline, and a predicted fall in government spending, "is expected to put some pressure on the rate of financial growth in the fourth quarter", EDS said.

It had signed $2.81bn in new business in the third quarter, including agreements with the US Department of Defense, Allison Engine Company and the Standard Bank of South Africa. It has more than 95,000 employees with contracts in 42 countries.

During the quarter, aftertax profits rose by 8.4 per cent to $266m.

INTERNATIONAL CAPITAL MARKETS

Bunds drag down most European prices

GOVERNMENT BONDS

By Richard Adams and Samer Iskandar in London and Lisa Bransten in New York

German government bonds sank yesterday, dragging most European bond prices along, after comments by Mr Otmar Issing, the Bundesbank's chief economist, dispelled hopes of further cuts in official interest rates.

Bond markets throughout Europe reacted negatively to the comments, reversing most of the gains made the previous day. Italian bonds, however, later reversed some of their losses on the back of a rate cut by the central bank.

■ Liffe's December bund future settled 0.33 lower at 99.48, after Mr Issing said he saw no reason to expect lower key interest rates, adding that he expected German economic growth to be better than expected this year. The bund future had reached a high of 99.85 before Mr Issing's comments.

In the cash market, the 10-year benchmark bund fell 0.48 to 101.65, its yield rising six basis points to 6.01 per cent.

■ Italian bonds, which had closed lower in line with bunds after Mr Issing's comments, rallied in after-hours trading, when the Bank of Italy announced a reduction in its discount rate to 7.5 per cent, from 8.25 per cent. It also cut its Lombard rate by 75 basis points to 9 per cent.

Liffe's December BTP future jumped by almost half a percentage point from its closing level of 123.48, which was down 0.27 from Tuesday.

Analysts said the market was expecting the easing, following the release of preliminary data showing consumer price inflation had fallen to about 3 per cent from 3.4 per cent last month.

"This [rate cut] should help the convergence process," said Mr Francesco Giordano, an economist at San Paolo Bank in London. He predicts a tightening of the 10-year yield spread of BTPs over bunds to "around 210–215 basis points in the next couple of days", from 228 points yesterday.

Mr Giordano expects a further easing by the Bank of Italy before the year-end, but warns that "there is little room for rates to go below 7 per cent".

■ Japanese bonds hit another all-time high yesterday, the December JGB future reaching 124.36 in Tokyo, before settling at 124.00. Analysts in Tokyo said the contract could soon hit 124.50, a key psychological resistance level.

The JGB rally followed comments by Mr Yasuo Matsushita, the Bank of Japan governor, that economic growth was unlikely to accelerate soon.

Dealers said his comments made a rise in either inflation or interest rates unlikely in the short-term. The yield on the 10-year benchmark bond No 182 closed at 2.68 per cent in Tokyo, but returned to 2.69 per cent in London.

Traders said the New Financial Stabilisation Fund was detected buying 10-year JGBs. The fund was set up by the government to deal with bad property loans by mortgage firms.

The New Fund was said to want to buy Y30bn worth of JGBs but its reluctance to pay above market rates meant it only managed to buy around Y15bn worth.

■ US Treasury prices were modestly weaker in early trading yesterday as the market prepared for another round of new supply.

Near midday, the benchmark 30-year Treasury was off ⅛ at 98$\frac{5}{16}$ to yield 6.858 per cent, while the two-year note was $\frac{1}{16}$ lower at 99$\frac{29}{32}$, yielding 5.959 per cent. The December 30-year bond future lost ⅛ to 111$\frac{5}{32}$.

Traders pushed existing five-year notes down $\frac{1}{16}$ to 100⅛, with a yield of 6.321 per cent, in preparation for the afternoon sale of $12.5bn of new five-year notes. Tuesday's sale of two-year notes met average demand and had little effect on trading.

Traders said bonds could remain range-bound through to the end of the month because there is little in the way of important economic data until the release of the October employment figures a week from tomorrow.

Toyota targets Asian buyers with DM1bn deal

INTERNATIONAL BONDS

By Conner Middelmann

The eurobond market saw a series of firsts yesterday: the longest-dated non-US dollar eurobond for an emerging-market credit, for Argentina; the first D-Mark denominated Euro-Asian bond, for Toyota Motor Credit Corp; and the first tier-three capital global bond, for ABN Amro Bank.

TMCC's DM1bn offering was targeted at Asian investors in addition to traditional eurobond buyers – like its three dollar-denominated Euro-Asian issues. It was launched during Tokyo trading and will be listed in Hong Kong and Singapore as well as London and Frankfurt. As a result, said joint leads Merrill Lynch and SBC Warburg, some 35 per cent went to Asian investors.

The book-runners pointed out that the bonds were priced over the five-year bund due September 2001 rather than the Bobl 119 due May 2001, against which most recent five-year deals have been priced.

"This is a much more realistic benchmark – the maturities match better and the bund is extremely liquid," a syndicate official said. "We have gone a long way in resetting the benchmark in the five-year sector," he said.

Elsewhere in D-Marks, Argentina issued DM500m of 30-year bonds yielding 497 basis points over the bund due 2024. This tops off the impressive yield curve Argentina has established in the D-Mark market, comprising bonds with three, five, seven, 10, 15 and 20-year maturities.

Lead Deutsche Morgan Grenfell reported substantial advance orders from European retail banks, in part because of the publicity the deal received ahead of launch. The long maturity – albeit with call options at 10, 15, 20 and 25 years – did not seem to deter retail investors, who usually prefer short-dated bonds. "People are looking more at coupons and yields than maturity," an official said.

ABN Amro Bank's Chicago branch issued global subordinated five-year bonds, yielding 40 basis points over Treasuries, to raise tier-three capital, a form of deeply subordinated debt introduced in 1996 under the European Union's capital adequacy directive. The only previous tier-three bond – $250m of FRNs for ING Bank in June – performed relatively poorly, partly because it was not rated at launch.

Banks have traditionally funded banking and trading with tier-one capital, which includes equity, cash and non-cumulative perpetual debt, and tier-two capital made up of dated subordinated debt and cumulative perpetual debt.

Under the directive, banks can raise tier-three capital – unsecured, short-term subordinated capital with a maturity of at least two years – to capitalise their trading book.

However, interest and principal payments on tier-three debt must be deferred if payment would mean that the bank fell below its minimum regulatory capital requirement.

For Dutch banks, the minimum solvency ratio is 8 per cent, and ABN's capital ratio stood at 10.3 per cent in June. "ABN Amro displays a strong and stable capitalisation... and therefore the likelihood of non-payment remains remote," said Moody's, which rates the bonds Aa3. Joint leads ABN and Morgan Stanley reported strong demand from US investors.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
ABN Amro Bank(Chicago)	500	6.625#	99.644R	Oct 2001	0.30R	+40(WI 5yr)	ABN Amro/M Stanley
Bankers Trust Co‡	200	(a)	100.00R	Nov 2001	0.165R	-	Bear Stearns Intl
Bank of Western Australia‡	150	(b)	99.99R	Nov 2001	0.15R	-	Paribas Capital Markets
■ D-MARKS							
Toyota Motor Credit Corp	1bn	4.875	99.562R	Nov 2001	0.25R	+58(4¾%Sep01)	Merrill/SBC Warburg
Republic of Argentina(c)	500	11.75	99.75R	Nov 2026	1.75R	+497(6¼%-24)	Deutsche Morgan Grenfell
Saint George Bank(d)‡	100	(d1)	99.95R	Aug 2001	0.20R	-	UBS Germany
■ STERLING							
CMR, No 2(e)‡	64.5	(e1)	100.00	2006	undisc	-	Greenwich Capital Mkts
■ FRENCH FRANCS							
ING America Insurance	1.5bn	5.625	99.65R	Nov 2003	0.35R	+26(6½%-03)	Morgan Stanley
■ ITALIAN LIRE							
Credit Local de France	200bn	8.125	101.70	Dec 2006	2.00	-	Banca IMI/Credito
■ LUXEMBOURG FRANCS							
Crédit Européen	2bn	(f)	102.50	Dec 2006	2.00	-	Crédit Européen-BBL
■ PESETAS							
SNCF	10bn	7.00	100.445	Nov 2002	1.625	-	Banco Central Hispano

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. ‡ Floating-rate note. # Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +⅛%. b) 3-mth Libor +¼%. c) Callable on 13/11/06 & every 5 yrs at par. d) Fungible with DM200m. d1) 3-mth Libor +15bp. e) City Mortgage Receivables. Legal maturity: 2023. Av life: 4.5 yrs. e1) 1-mth Libor +32bp. f) 5¾% to 18/12/01, then 7% to 18/12/04, then 6¼%.

CAPITAL MARKETS NEWS DIGEST

Eleven banks join CME depository

The Chicago Mercantile Exchange yesterday said 11 banks and financial institutions had agreed to become charter members of its depository for swaps collateral, bringing the futures exchange one step closer to becoming a custodian for collateral used to guarantee over-the-counter swaps transactions.

Bankers Trust Company, Citibank, Industrial Bank of Japan, Merrill Lynch Capital Services, Morgan Guaranty Trust Company of New York, NatWest Markets, Banque Paribas, Société Générale, Union Bank of Switzerland, ABN Amro, and First National Bank of Chicago have all agreed to join the CME's Depository Trust Co (DTC), giving it a substantial presence among leading global derivatives dealers.

Charter members will now consult on a rulebook for the new organisation. The CME said the subsidiary, which is regulated under Illinois banking and trust company law, could begin operating as early as February or March.

Privately-negotiated structured derivatives transactions had a notional value of $17,000bn last year, according to the International Swaps and Derivatives Association. While not all these transactions are backed by collateral, an increasing number are, and managing that collateral has become complicated for dealers.

The CME's collateral depository is tailored to service those dealers. While offering custodial services, the CME unit will not guarantee, nor clear, swaps contracts. Cedel, the Luxembourg-based eurobond clearer, is also developing a swaps collateral custodial system, which traders say is not as specialised as the CME's and will appeal to end-users of derivatives. The Chicago Board of Trade also has a swaps collateral depository under development.

Historically, growth in privately-negotiated swaps and related derivatives has been reflected by similar growth in the CME's listed eurodollar futures and options. "The CME DTC should bring greater efficiency to collateral management in privately negotiated derivatives activity, which in turn will benefit its parent, the CME," said Mr John McPartland, president of the CME DTC.

Laurie Morse, Chicago

Bank of Cyprus convertible

The Bank of Cyprus will next week price the first convertible bond by a Cypriot issuer. The deal will also be the first international security denominated in Cyprus pounds. The C£40m of seven-year paper will be convertible into the issuer's ordinary shares at a premium of 10 per cent to 15 per cent. Salomon Brothers is lead manager of the deal, part of which will be offered to investors in the US, under the Securities and Exchange Commission's Rule 144a. As the Cypriot pound is highly correlated with the Ecu, one analyst said the bonds should appeal to Ecu investors, in addition to funds specialising in emerging markets. The Bank of Cyprus is the country's largest commercial bank, with a market share of about 43 per cent.

Samer Iskandar, London

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	94.5400	-0.070	7.53	7.71	8.10
Austria		5.875	07/06	98.4700	-0.260	6.08	5.97	6.16
Belgium		7.000	05/05	105.3400	-0.310	6.10	6.13	6.41
Canada *		7.000	12/06	103.6600	-0.680	6.47	6.62	7.29
Denmark		8.000	03/06	107.7600	-0.350	6.85	6.88	7.16
France	BTAN	5.500	10/01	102.4268	-0.360	4.95	5.04	5.33
	OAT	6.500	10/06	103.8800	-0.360	5.98	6.04	6.20
Germany Bund		6.250	04/06	101.6500	-0.480	6.01	6.05	6.22
Ireland		8.000	08/06	107.6200	-0.200	6.90	6.96	7.28
Italy		9.500	02/06	109.0200	-0.030	8.10†	8.21	9.02
Japan	No 140	6.600	06/01	121.9037	-0.050	1.59	1.72	1.83
	No 182	3.000	09/05	102.2363	+0.040	2.69	2.83	2.90
Netherlands		8.500	06/06	118.4300	-0.400	5.93	5.95	6.10
Portugal		9.500	02/06	112.4200	-0.150	7.59	7.69	8.34
Spain		8.800	04/06	106.1900	-0.660	7.81	7.89	8.46
Sweden		6.000	02/05	92.4477	-0.290	7.23	7.25	7.85
UK Gilts		8.000	12/00	103-27	-3/32	6.91	6.87	6.93
		7.500	12/06	99-19	-8/32	7.55	7.55	7.72
		9.000	10/08	110-08	-12/32	7.68	7.67	7.84
US Treasury *		6.500	10/06	99-12	-14/32	6.59	6.59	6.72
		6.750	08/26	98-18	-20/32	6.86	6.89	6.96
ECU (French Govt)		7.000	04/06	104.4900	-0.260	6.35	6.37	6.69

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.96
Prime rate	8¼	Two month	-	Three year	6.11
Broker loan rate	7	Three month	5.12	Five year	6.31
Fed.funds	5½	Six month	5.34	10-year	6.57
Fed.funds at intervention	-	One year	5.56	30-year	6.86

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	126.58	126.38	-0.26	126.68	126.32	141,377	192,431
Mar	126.58	126.38	-0.26	126.64	126.38	2,495	37,562
Jun	125.32	125.12	-0.26	125.34	125.32	202	5,741

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Nov	Calls Dec	Calls Mar	Puts Nov	Puts Dec	Puts Mar
123	3.36	-	3.75	-	-	0.43
124	-	2.47	-	0.01	0.10	0.64
125	1.37	1.62	2.25	0.02	0.28	0.90
126	0.53	0.93	-	0.16	0.58	-
127	0.07	0.46	-	0.70	1.06	-

Est. vol. total, Calls 22,442 Puts 22,436. Previous day's open int., Calls 203,206 Puts 202,081.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.71	99.47	-0.34	99.85	99.42	176910	268508
Mar	98.67	98.44	-0.31	98.80	98.49	2987	13351

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
9900	0.48	0.64	0.52	0.85	0.01	0.37	1.08	1.42
9950	0.05	0.55	0.34	0.66	0.08	0.58	1.40	1.72
10000	0.01	0.33	0.21	0.50	0.54	0.86	1.77	2.06

Est. vol. total, Calls 17508 Puts 16866. Previous day's open int., Calls 226420 Puts 237984

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	123.90	123.44	-0.27	124.15	123.30	64126	63763
Mar	123.20	122.73	-0.27	123.20	122.82	344	2629

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
12300	1.44	2.07	0.96	2.34
12350	1.17	1.83	1.19	2.60
12400	0.92	1.62	1.44	2.89

Est. vol. total, Calls 36727 Puts 11122. Previous day's open int., Calls 165623 Puts 166301

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	107.45	106.90	-0.58	107.60	106.71	107,382	72,933

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	109-29	109-25	-0-09	110-06	109-23	65943	163690
Mar	109-02	108-29	-0-09	109-02	109-02	52	2276

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
109	0-52	1-24	1-12	1-49	0-02	0-36	1-18	1-55
110	0-09	0-51	0-46	1-20	0-23	1-01	1-54	2-26
111	0-01	0-25	0-28	0-60	1-15	1-39	2-35	3-02

Est. vol. total, Calls 5833 Puts 1902. Previous day's open int., Calls 50742 Puts 38510

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.34	94.08	-0.22	94.44	94.04	1,116	7,148
Mar	-	93.44	-	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	110-20	110-18	-0-02	110-24	110-13	208,318	406,320
Mar	110-03	110-03	-0-02	110-06	109-31	2,018	25,317
Jun	109-17	109-17	-0-04	109-17	109-17	10	5,363

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	124.04	-	-	124.04	123.80	2004	n/a
Mar	122.98	-	-	122.98	122.84	496	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Wed Oct 23	Day's change %	Tue Oct 22	Accrued interest	xd adj. ytd
1 Up to 5 years (22)	121.71	0.01	121.77	2.47	6.04
2 5–15 years (19)	150.32	-0.10	150.67	3.18	8.49
3 Over 15 years (8)	166.43	0.05	166.34	3.48	8.83
4 Irredeemables (6)	191.77	-0.03	191.82	4.35	6.83
5 All stocks (55)	144.47	-0.04	144.55	3.01	8.85
Index-linked					
6 Up to 5 years (2)	202.83	0.12	202.60	0.34	5.26
7 Over 5 years (10)	194.91	0.21	194.50	1.30	4.17
8 All stocks (12)	194.70	0.20	194.31	1.19	4.21

UK Indices

Yields	Low coupon Oct 23	Low Oct 22	Low Yr. ago	Medium coupon Oct 23	Medium Oct 22	Medium Yr. ago	High coupon Oct 23	High Oct 22	High Yr. ago
5 yrs	7.02	7.00	7.55	7.08	7.06	7.55	7.14	7.13	7.65
15 yrs	7.82	7.78	8.16	7.79	7.73	8.20	7.83	7.82	8.30
20 yrs	7.93	7.89	8.21	7.88	7.88	8.25	7.92	7.91	8.33
Irred.†	7.97	7.97	8.35						

Index-linked	Inflation 5% Oct 23	Oct 22	Yr. ago	Inflation 10% Oct 23	Oct 22	Yr. ago
Up to 5 yrs	3.07	3.10	3.26	2.39	2.41	2.11
Over 5 yrs	3.53	3.55	3.70	3.33	3.34	3.49

Average gross redemption yields are shown above. Coupon Bands: Low: 0%–7¾%; Medium: 8%–10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Oct 23	Oct 22	Oct 21	Oct 18	Oct 17	Yr ago	High*	Low*
Govt. Secs. (UK)	94.12	94.30	93.90	94.00	94.01	93.19	96.34	91.59
Fixed Interest	115.56	115.60	115.45	115.40	115.97	110.66	116.45	110.74

Gilt Edged Activity Indices

	Oct 22	Oct 21	Oct 18	Oct 17	Oct 16
Gilt Edged bargains	124.5	82.8	150.5	157.6	108.0
5-day average	124.3	118.0	118.9	110.4	99.8

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FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on October 23

U.S. DOLLAR STRAIGHTS · SWISS FRANC STRAIGHTS · YEN STRAIGHTS · OTHER STRAIGHTS · DEUTSCHE MARK STRAIGHTS · FLOATING RATE NOTES · CONVERTIBLE BONDS

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

Shorts (Lives up to Five Years) · Five to Fifteen Years · Over Fifteen Years · Undated · Index-Linked · Other Fixed Interest

[illegible]

■ "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real index-linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

هكذا من الأصل

CURRENCIES AND MONEY

The D-Mark rises and the yen falls

MARKETS REPORT

By Simon Kuper

The D-Mark yesterday reached its highest level against the yen since February 1993, boosted by factors ranging from Bundesbank disavowals of interest rate cuts to the Deutsche Telekom share sell-off. The currency closed Y0.65 higher in London at Y74.18, after breaking technical resistance at Y73.80.

The yen was the main loser in a volatile day's trading, its fall driven partly by remarks from the Bank of Japan's governor suggesting that rates would stay low.

The dollar mainly reacted to the German and Japanese currencies. It started the day badly, but recovered to close in London only 1.1 pfennig down against the D-Mark at DM1.524 and Y0.1 stronger at Y113.0.

■ The biggest impetus for the D-Mark's recovery yesterday came from Mr Otmar Issing, the Bundesbank's chief economist. He said that Germany's discount or lombard rates were at an historic low and no further cuts should be expected, while economic growth this year would be stronger than anticipated. The message on rates was later backed up by Mr Johann Wilhelm Gaddum, the Bundesbank vice president.

Currency strategists said foreign demand for shares in the Deutsche Telekom privatisation had also probably boosted the D-Mark. Mr Tony Norfield, treasury economist at ABN Amro in London, said: "This flotation being enormous – about DM15bn – could account for a lot of buying." He said that about 35 per cent of the funds were expected to come from abroad.

Further help for the D-Mark came from the market's view that Bonn as well as the Bundesbank now opposes Italian entry into the first stage of European monetary union. On Tuesday Bonn denied comments by Italian Prime minister Romano Prodi that Chancellor Helmut Kohl wanted Italy to be in the first wave. The German attitude suggests the euro could be a harder currency than had been thought a week ago.

Yesterday the lira fell sharply against the D-Mark, closing L4 lower in London at L1,002.

After the London close the Bank of Italy said it would cut its official discount and lombard rate by 75 basis points to 7.5 per cent and 9 per cent respectively. The impetus for this was preliminary data suggesting an October inflation rate of 3.0 per cent.

Currency strategists said the Bank's move – which came earlier than expected – implied that Italy would be happy with a slight fall in the lira against the D-Mark. The country is expected to enter the European exchange rate mechanism before the end of the year, and it would like a rate of below L1,000 to the D-Mark. France wants its neighbour to enter with a stronger lira, to prevent Italian exports from gaining an advantage.

■ The yen, like the D-Mark, was moved largely by central bank statements yesterday. Mr Yasuo Matsushita, governor of the Bank of Japan, said the Japanese economy was unlikely to accelerate soon. Market expectations of an interest rate hike were fading, he added.

These remarks, coupled with the poor economic data of the last week and Japanese investor appetite for high-yielding foreign assets, sent the yen sliding.

The yen suffered against the dollar from reports that an unnamed White House official had said that the dollar's renewed strength need not reinflate the trade gap with Japan.

■ Sterling's 2 pfennig drop to DM2.432 yesterday was largely a result of D-Mark strength. But the 0.5 point fall in the pound's trade weighted index to 88.8 was also due to weak UK retail sales data, which reduced belief that British interest rates would rise soon. Most traders yesterday were bearish about the pound's prospects, now that its three-month bull run seems to be faltering.

■ The Norwegian crown closed the day barely down on its opening level even though Prime minister Gro Harlem Brundtland resigned unexpectedly and despite a strong D-Mark. After an initial slide, the crown closed in London at DM0.2357.

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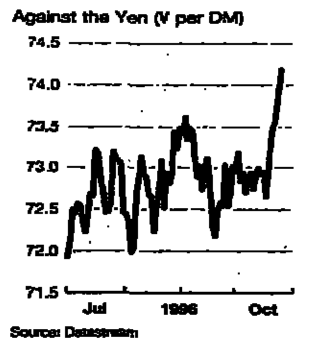
D-Mark

Against the Yen (Y per DM)



Source: Datastream

■ Pound in New York

Oct 23	—Latest—	— Prev. close —
£ spot	1.5990	1.5970
1 mth	1.5983	1.5963
3 mth	1.5972	1.5952
1 yr	1.5907	1.5886

■ OTHER CURRENCIES

Oct 23	£	$
Czech Rp	43.0441 - 43.0976	26.9700 - 26.9900
Hungary	248.178 - 248.382	155.500 - 155.550
Iran	4790.45 - 4789.40	3000.00 - 3000.00
Kuwait	0.4783 - 0.4787	0.2997 - 0.2998
Poland	4.4869 - 4.5014	2.8170 - 2.8190
Russia	8687.63 - 8694.58	5443.00 - 5445.00
UAE	5.8610 - 5.8646	3.6723 - 3.6727

POUND SPOT FORWARD AGAINST THE POUND

Oct 23		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.1092	-0.1413	015 - 167	17.2256	17.0703	17.0657	3.1	17.0092	2.3	-	-	104.7
Belgium	(BFr)	50.0951	-0.4179	745 - 156	50.5320	50.0180	49.9751	2.9	49.7501	2.8	48.7301	2.7	106.0
Denmark	(DKr)	9.3235	-0.0642	185 - 274	9.3499	9.3054	9.3062	2.2	9.2746	2.1	9.1363	2.0	107.4
Finland	(FM)	7.3014	-0.0442	936 - 092	7.3430	7.2850	-	-	-	-	-	-	84.7
France	(FFr)	8.2211	-0.0564	178 - 243	8.2509	8.2082	8.2044	2.4	8.1737	2.3	8.036	2.3	108.8
Germany	(DM)	2.4319	-0.0202	309 - 329	2.4540	2.4268	2.4264	2.7	2.4152	2.8	2.3653	2.7	107.9
Greece	(Dr)	381.069	-2.267	889 - 268	383.400	380.191	-	-	-	-	-	-	67.9
Ireland	(I£)	0.9903	-0.0027	897 - 909	0.9935	0.9891	0.9901	0.2	0.9898	0.2	0.987	0.3	99.9
Italy	(L)	2438.26	-6.85	661 - 991	2444.66	2435.13	2443.31	-2.5	2451.86	-2.2	2473.26	-1.4	77.0
Luxembourg	(LFr)	50.0951	-0.4179	745 - 156	50.5320	50.0180	49.9751	2.9	49.7501	2.8	48.7301	2.7	106.0
Netherlands	(Fl)	2.7278	-0.0225	264 - 289	2.7454	2.7229	2.7208	3.1	2.7075	3.0	2.6488	2.9	106.1
Norway	(NKr)	10.3228	-0.06	186 - 270	10.4020	10.2846	10.3128	1.2	10.3013	0.8	10.2493	0.7	98.7
Portugal	(Es)	245.510	-1.559	389 - 630	247.249	244.242	245.755	-1.2	246.135	-1.0	-	-	96.0
Spain	(Pta)	204.914	-1.387	831 - 997	206.445	204.580	205.114	-1.2	205.449	-1.0	206.164	-0.6	80.0
Sweden	(SKr)	10.5003	-0.0534	897 - 109	10.5262	10.4829	10.4995	0.1	10.4976	0.1	10.489	0.1	90.8
Switzerland	(SFr)	2.0026	-0.0182	015 - 040	2.0100	1.9978	1.9953	4.5	1.9815	4.3	1.9204	4.1	110.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	88.8
Ecu	-	1.2692	-0.0072	686 - 697	1.2750	1.2669	1.2674	1.7	1.2639	1.7	1.2482	1.8	-
SDR†	-	1.109302	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5982	-0.0011	957 - 966	1.6007	1.5952	-	-	-	-	-	-	-
Brazil	(R$)	1.6387	-0.0001	381 - 393	1.6437	1.6381	-	-	-	-	-	-	-
Canada	(C$)	2.1438	-0.0054	428 - 447	2.1669	2.1428	2.1402	2.0	2.133	2.0	2.1068	1.7	85.9
Mexico	(New Peso)	12.5238	+0.1312	126 - 349	12.5652	12.4289	-	-	-	-	-	-	-
USA	($)	1.5984	-0.0011	980 - 988	1.6010	1.5955	1.5958	0.8	1.5945	0.5	1.5875	0.6	97.4
Pacific/Middle East/Africa													
Australia	(A$)	2.0082	+0.0011	070 - 093	2.0150	2.0059	2.0099	-1.0	2.0122	-0.8	2.0181	-0.5	94.4
Hong Kong	(HK$)	12.3436	-0.0085	401 - 471	12.3781	12.3372	12.3395	0.4	12.3366	0.2	12.3476	0.0	-
India	(Rs)	56.8319	-0.1191	378 - 259	56.9259	56.8000	-	-	-	-	-	-	-
Israel	(Shk)	5.1987	+0.0031	943 - 030	5.2105	5.1925	-	-	-	-	-	-	-
Japan	(Y)	180.425	+0.083	316 - 534	180.590	179.190	179.575	5.7	177.985	5.5	171.18	5.1	128.9
Malaysia	(M$)	4.0005	-0.0004	989 - 021	4.0113	3.9992	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2474	-0.0037	450 - 497	2.2559	2.2454	2.2552	-4.2	2.2691	-3.9	2.3075	-2.7	112.4
Philippines	(Peso)	41.9455	-0.0293	631 - 278	42.0278	41.8631	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9873	-0.0042	856 - 890	6.0044	5.9842	-	-	-	-	-	-	-
Singapore	(S$)	2.2612	+0.0001	601 - 623	2.2680	2.2523	-	-	-	-	-	-	-
South Africa	(R)	7.3044	+0.0038	985 - 102	7.3165	7.2873	-	-	-	-	-	-	-
South Korea	(Won)	1320.14	-2.03	973 - 055	1324.00	1319.48	-	-	-	-	-	-	-
Taiwan	(T$)	44.0607	+0.0495	017 - 196	44.1396	44.0017	-	-	-	-	-	-	-
Thailand	(Bt)	40.6683	-0.0528	421 - 944	40.7700	40.6421	-	-	-	-	-	-	-

† Rates for Oct 22. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 23		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.7174	-0.0811	153 - 194	10.7490	10.6820	10.6976	2.2	10.6574	2.2	10.4824	2.4	104.4
Belgium	(BFr)	31.3800	-0.24	750 - 850	31.5320	31.3000	31.315	2.5	31.1825	2.5	30.5625	2.6	105.5
Denmark	(DKr)	5.8400	-0.0382	393 - 413	5.8532	5.8225	5.8314	1.8	5.815	1.9	5.7313	1.9	106.8
Finland	(FM)	4.5737	-0.0245	699 - 774	4.5993	4.5665	4.5649	2.3	4.5461	2.4	4.4637	2.4	84.0
France	(FFr)	5.1498	-0.038	490 - 505	5.1665	5.1377	5.141	2.0	5.123	2.1	5.0408	2.1	108.1
Germany	(DM)	1.5234	-0.0116	231 - 236	1.5260	1.5189	1.5204	2.4	1.5138	2.5	1.4838	2.6	107.1
Greece	(Dr)	238.705	-1.255	640 - 770	240.000	237.930	240.26	-7.4	242.83	-6.8	253.855	-6.3	67.4
Ireland	(I£)	1.6121	+0.0033	115 - 126	1.6175	1.6073	1.6119	0.2	1.6115	0.1	1.6093	0.2	-
Italy	(L)	1527.35	-4.37	670 - 800	1529.25	1523.59	1531.15	-3.0	1537.1	-2.6	1592.6	-1.7	76.8
Luxembourg	(LFr)	31.3800	-0.24	750 - 850	31.5320	31.3000	31.315	2.5	31.1825	2.5	30.5625	2.6	105.5
Netherlands	(Fl)	1.7067	-0.013	064 - 090	1.7186	1.7045	1.7049	2.2	1.6990	2.8	1.6614	2.8	105.5
Norway	(NKr)	6.4663	-0.0331	653 - 673	6.5114	6.4140	6.4626	0.7	6.4569	0.6	6.4313	0.5	97.9
Portugal	(Es)	153.790	-0.87	740 - 840	154.850	152.890	153.995	-1.6	154.29	-1.3	155.065	-0.8	96.1
Spain	(Pta)	128.360	-0.78	340 - 380	129.640	128.080	128.54	-1.7	128.9	-1.4	129.465	-0.9	79.7
Sweden	(SKr)	6.5775	-0.0289	725 - 825	6.5903	6.5590	6.5747	0.5	6.5648	0.8	6.5175	0.9	90.3
Switzerland	(SFr)	1.2546	-0.0105	541 - 550	1.2580	1.2495	1.2502	4.2	1.2418	4.1	1.2041	4.0	109.5
UK	(£)	1.5964	-0.0011	960 - 968	1.6010	1.5955	1.5956	0.6	1.5945	0.5	1.5875	0.6	88.8
Ecu		1.2579	+0.0062	576 - 581	1.2616	1.2555	1.2592	-1.3	1.2624	-1.4	1.279	-1.7	-
SDR†	-	0.695357	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0265	+0.0001	264 - 266	1.0280	1.0263	-	-	-	-	-	-	-
Canada	(C$)	1.3429	-0.0025	426 - 431	1.3554	1.3426	1.3411	1.7	1.357	1.8	1.3224	1.5	85.2
Mexico	(New Peso)	7.8450	+0.0875	400 - 500	7.8500	7.8400	7.963	-18.0	8.2295	-19.5	9.09	-15.9	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.3
Pacific/Middle East/Africa													
Australia	(A$)	1.2579	+0.0015	575 - 583	1.2583	1.2575	1.2594	-1.4	1.2613	-1.1	1.2668	-0.7	96.3
Hong Kong	(HK$)	7.7322	-	319 - 324	7.7324	7.7310	7.7321	0.0	7.7326	0.0	7.7437	-0.1	-
India	(Rs)	35.6000	-0.05	500 - 500	35.6500	35.5500	35.815	-7.2	36.275	-7.6	-	-	-
Israel	(Shk)	3.2565	+0.0042	546 - 584	3.2618	3.2501	-	-	-	-	-	-	-
Japan	(Y)	113.020	+0.13	980 - 060	113.060	112.040	112.515	5.4	111.52	5.3	107.305	5.1	129.8
Malaysia	(M$)	2.5060	+0.0015	056 - 063	2.5072	2.5028	2.5088	-1.4	2.5142	-1.3	2.5355	-1.2	-
New Zealand	(NZ$)	1.4078	-0.0013	073 - 083	1.4083	1.4073	1.4133	-4.7	1.4176	-3.8	1.4491	-2.9	-
Philippines	(Peso)	26.2750	+0.005	300 - 200	26.3000	26.2300	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 506	3.7506	3.7504	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1	-
Singapore	(S$)	1.4165	+0.0011	161 - 168	1.4168	1.4097	1.4143	1.8	1.4098	1.9	1.3865	2.0	-
South Africa	(R)	4.5755	+0.0055	730 - 780	4.5790	4.5660	4.6162	-10.7	4.6912	-10.1	5.006	-8.4	-
South Korea	(Won)	826.950	-0.7	900 - 000	827.000	826.800	-	-	-	-	-	-	-
Taiwan	(T$)	27.6000	+0.05	700 - 300	27.6300	27.5500	27.601	0.0	27.6003	0.0	-	-	-
Thailand	(Bt)	25.4750	-0.0155	650 - 850	25.4960	25.4500	25.565	-4.2	25.7325	-4.0	26.37	-3.5	-

† SDR rate per $ for Oct 22. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 22: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

October 23	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.35	-	4.75
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.35	-	4.75
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	7.50	8.38
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	8.25	8.38
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-

■ $ LIBOR FT London

Interbank Fixing	-	5⅜	5½	5⅝	5⅞
week ago	-	5⅜	5½	5⅝	5⅞
US Dollar CDs	-	5.10	5.10	5.19	5.41
week ago	-	5.10	5.15	5.25	5.44
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.

Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 23	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.44	96.42	-0.02	96.45	96.40	17,769	56,036
Mar	96.41	96.39	-0.02	96.42	96.37	10,122	49,364
Jun	96.38	96.35	-0.03	96.40	96.34	6,433	28,042

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.86	96.83	-0.03	96.86	96.82	29814	223302
Mar	96.88	96.82	-0.06	96.86	96.81	47000	199157
Jun	96.78	96.68	-0.11	96.80	96.67	59636	161310
Sep	96.59	96.48	-0.13	96.62	96.47	54590	148576

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.45	92.43	-0.01	92.50	92.41	26839	62218
Mar	93.03	92.98	-0.02	93.12	92.96	17937	47883
Jun	93.35	93.30	-0.02	93.43	93.27	3725	31492
Sep	93.47	93.41	-0.03	93.48	93.38	2078	24577

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.29	98.28	-0.02	98.31	98.24	5359	34324
Mar	98.30	98.25	-0.03	98.32	98.23	6141	27082
Jun	98.22	98.14	-0.08	98.22	98.12	1938	14389
Sep	98.00	97.93	-0.06	98.00	97.90	1017	5056

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.43	99.43	-0.01	99.43	99.43	10	n/c
Mar	99.36	99.36	-	99.36	99.36	3	n/c
Jun	99.24	99.23	-0.01	99.24	99.23	13	n/c

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.89	95.87	-0.02	95.89	95.85	1277	7681
Mar	95.90	95.87	-0.04	95.91	95.86	815	4749
Jun	95.86	95.83	-0.04	95.88	95.82	249	2939
Sep	95.79	95.74	-0.05	95.79	95.75	162	2611

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 23		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.61	16.41	4.855	1.976	4867	5.446	20.60	490.1	409.1	20.96	3.999	1.996	4.280	3.186	360.2	2.533
Denmark	(DKr)	53.72	10	8.817	2.608	1.062	2615	2.926	11.07	263.3	219.8	11.26	2.148	1.073	2.299	1.712	193.5	1.361
France	(FFr)	60.93	11.34	10	2.958	1.204	2966	3.318	12.55	298.6	249.2	12.77	2.436	1.216	2.608	1.941	219.4	1.544
Germany	(DM)	20.60	3.834	3.380	1	0.407	1002	1.122	4.243	100.9	84.25	4.317	0.824	0.411	0.882	0.656	74.18	0.522
Ireland	(I£)	50.60	9.418	8.304	2.457	1	2463	2.756	10.42	248.0	207.0	10.61	2.023	1.010	2.166	1.612	182.2	1.282
Italy	(L)	2.055	0.382	0.337	0.100	0.041	100.	0.112	0.423	10.07	8.404	0.431	0.082	0.041	0.088	0.065	7.400	0.052
Netherlands	(Fl)	18.36	3.418	3.014	0.891	0.363	893.7	1	3.783	89.99	75.11	3.849	0.734	0.367	0.786	0.585	66.13	0.465
Norway	(NKr)	48.54	9.035	7.966	2.357	0.959	2362	2.643	10	237.9	198.5	10.17	1.941	0.969	2.078	1.547	174.8	1.230
Portugal	(Es)	20.40	3.798	3.349	0.991	0.403	993.1	1.111	4.204	100.	83.46	4.277	0.816	0.407	0.873	0.650	73.48	0.517
Spain	(Pta)	24.45	4.551	4.012	1.187	0.483	1190	1.331	5.037	119.8	100.	5.124	0.978	0.488	1.046	0.779	88.04	0.619
Sweden	(SKr)	47.70	8.880	7.830	2.316	0.943	2322	2.598	9.829	233.8	195.1	10	1.908	0.952	2.042	1.520	171.8	1.209
Switzerland	(SFr)	25.01	4.655	4.104	1.214	0.494	1217	1.362	5.152	122.6	102.3	5.242	1	0.499	1.070	0.797	90.06	0.634
UK	(£)	50.09	9.324	8.221	2.432	0.990	2438	2.728	10.32	245.5	204.9	10.50	2.003	1	2.144	1.596	180.4	1.269
Canada	(C$)	23.36	4.349	3.834	1.134	0.462	1137	1.272	4.813	114.5	95.57	4.897	0.934	0.466	1	0.744	84.14	0.592
US	($)	31.38	5.842	5.151	1.524	0.620	1528	1.709	6.466	153.8	128.4	6.579	1.255	0.627	1.343	1	113.0	0.795
Japan	(Y)	27.77	5.169	4.557	1.348	0.549	1351	1.512	5.721	136.1	113.6	5.820	1.110	0.554	1.188	0.885	100.	0.703
Ecu		39.47	7.348	6.478	1.916	0.780	1921	2.150	8.132	193.5	161.5	8.274	1.578	0.788	1.690	1.258	142.2	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6583	0.6595	+0.0012	0.6608	0.6566	30,979	69,358
Mar	0.6640	0.6634	+0.0010	0.6646	0.6634	104	3,276
Jun	-	0.6680	+0.0014	0.6680	-	15	2,292

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8975	0.8931	-0.0035	0.8990	0.8912	14,867	71,929
Mar	0.9050	0.9051	-0.0031	0.9058	0.9049	1,320	2,296
Jun	0.9180	0.9173	-0.0026	0.9180	0.9170	12	219

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8018	0.8027	+0.0002	0.8052	0.8003	17,584	48,335
Mar	0.8095	0.8110	+0.0008	0.8129	0.8095	85	2,472
Jun	0.8200	0.8200	+0.0020	0.8205	0.8190	1	604

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5972	1.5964	-0.0014	1.5996	1.5950	7,284	57,252
Mar	-	1.5932	-0.0028	1.5980	1.5940	2	275
Jun	-	1.5920	-0.0022	1.5960	1.5920	4	2

UK INTEREST RATES

LONDON MONEY RATES

Oct 23	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 - 5	5⅞ - 5$\frac{11}{16}$	5$\frac{15}{16}$ - 5¾	6$\frac{1}{16}$ - 5$\frac{29}{32}$	6⅛ - 6	6$\frac{7}{16}$ - 6$\frac{5}{16}$
Sterling CDs	-	-	5$\frac{27}{32}$ - 5$\frac{25}{32}$	5$\frac{31}{32}$ - 5$\frac{29}{32}$	6$\frac{1}{16}$ - 6	6$\frac{9}{32}$ - 6$\frac{7}{32}$
Treasury Bills	-	-	5$\frac{11}{16}$ - 5$\frac{9}{16}$	5⅝ - 5½	-	-
Bank Bills	-	-	5$\frac{23}{32}$ - 5$\frac{23}{32}$	5⅞ - 5$\frac{13}{16}$	6 - 5⅞	-
Local authority deps.	5¾ - 5⅝	5¾ - 5⅝	5$\frac{27}{32}$ - 5$\frac{25}{32}$	5$\frac{15}{16}$ - 5$\frac{13}{16}$	6$\frac{1}{32}$ - 5$\frac{29}{32}$	6¼ - 6⅛
Discount Market deps	5⅞ - 5¾	5¾ - 5$\frac{11}{16}$	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on Oct 18, 5.5518pc. ECGD fixed rate Stlg. Export Finance. Make up day Sep 30, 1996. Agreed rate for period Oct 26, 1996 to Nov 25, 1996, Schemes II & III 7.08pc. Reference rate for period Aug 31, 1996 to Sep 30, 1996, Schemes IV & V 5.849pc. Finance House Base Rate 6pc from Oct 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.93	93.93	-	93.95	93.91	15939	97047
Mar	93.76	93.75	-0.01	93.80	93.73	25133	93972
Jun	93.44	93.44	-	93.50	93.40	19946	88376
Sep	93.19	93.17	-0.01	93.24	93.14	16102	53008
Dec	92.99	92.96	-0.03	93.05	92.93	9798	40870

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9375	0.22	0.19	0.16	0.04	0.19	0.47
9400	0.05	0.07	0.08	0.12	0.32	0.64
9425	0.01	0.03	0.04	0.33	0.53	0.85

Est. vol. total, Calls 2550 Puts 5350. Previous day's open int., Calls 131638 Puts 147614

EMS EUROPEAN CURRENCY UNIT RATES

Oct 23	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.792214	0.782531	+0.001796	-1.22	2.77	8
Portugal	195.792	194.132	+0.13	-0.85	2.39	6
Finland	5.80661	5.77037	+0.00153	-0.62	2.15	4
Spain	162.493	162.061	+0.029	-0.27	1.79	2
Netherlands	2.15214	2.15689	-0.00304	0.22	1.29	-2
Belgium	39.3960	39.6053	-0.0555	0.53	0.98	-4
Austria	13.4383	13.5259	-0.0201	0.65	0.86	-5
Germany	1.91007	1.92249	-0.00297	0.65	0.86	-6
Denmark	7.28580	7.36823	-0.00474	1.13	0.38	-8
France	6.40608	6.50327	-0.00425	1.52	0.00	-13
NON ERM MEMBERS						
Greece	292.867	301.174	+0.092	2.84	-1.28	-
Italy	2106.15	1930.28	+8.3	-8.35	10.77	-
UK	0.786652	0.790411	+0.003805	0.48	1.03	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.

(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	PUTS Nov	PUTS Dec	PUTS Jan
1.570	-	-	-	0.09	0.39	0.66
1.580	1.78	2.11	2.39	0.28	0.67	0.98
1.590	1.10	1.50	1.80	0.64	1.11	1.40
1.600	0.60	1.01	1.32	1.11	1.57	1.92
1.610	0.28	0.64	0.93	1.78	2.19	2.51

Previous day's vol., Calls 6,100 Puts 12,560. Prev. day's open int., Calls 146,674 Puts 136,914

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.38	94.38	-	94.38	94.36	31,440	467,615
Mar	94.28	92.48	-0.01	94.29	94.26	48,883	374,129
Jun	94.13	94.12	-0.01	94.14	94.11	36,407	272,956

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.94	94.94	-	94.94	94.93	147	3,929
Mar	94.80	94.80	-0.01	94.80	94.80	34	1,857
Jun	-	94.64	-0.01	-	94.64	61	1,352

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Jan	PUTS Mar
9675	0.10	0.11	0.14	0.17	0.02	0.03	0.07	0.10
9700	0.01	0.01	0.03	0.05	0.18	0.18	0.21	0.23
9725	0	0	0.01	0.01	0.42	0.42	0.44	0.44

Est. vol. total, Calls 13807 Puts 12130. Previous day's open int., Calls 432384 Puts 307276

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9850	0.04	0.12	0.15	0.28	0.37	0.51
9875	0.02	0.04	0.07	0.51	0.54	0.68

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 4179 Puts 2050

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9225	0.27	0.82	1.16	0.09	0.09	0.11
9250	0.13	0.62	0.96	0.20	0.14	0.16
9275	0.05	0.44	0.77	0.37	0.21	0.22

Est. vol. total, Calls 6969 Puts 2602. Previous day's open int., Calls 107188 Puts 51364

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Cyprus Popular Bank	5.75	NatWestminster	5.75
Allied Trust Bank	5.75	Duncan Lawrie	5.75	●Rea Brothers	5.75
AIB Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
●Henry Ansbacher	5.75	Financial & Gen Bank	7.00	●Singer & Friedlander	5.75
Bank of Baroda	5.75	●Robert Fleming & Co	5.75	●Smith & Williamson Secs	5.75
Banco Bilbao Vizcaya	5.75	Girobank	5.75	Scottish Widows Bank	5.75
Bank of Cyprus	5.75	●Guinness Mahon	5.75	TSB	5.75
Bank of Ireland	5.75	Habib Bank AG Zurich	5.75	United Bank of Kuwait	5.75
Bank of India	5.75	●Hambros Bank	5.75	Unity Trust Bank Plc	5.75
Bank of Scotland	5.75	Heritable & Gen Inv Bk	5.75	Western Trust	5.75
Barclays Bank	5.75	●Hill Samuel	5.75	Whiteaway Laidlaw	5.75
Brit Bk of Mid East	5.75	C. Hoare & Co	5.75	Yorkshire Bank	5.75
●Brown Shipley & Co Ltd	5.75	Hongkong & Shanghai	5.75		
Citibank NA	5.75	Julian Hodge Bank	5.75		
Clydesdale Bank	5.75	●Leopold Joseph & Sons	5.75		
The Co-operative Bank	5.75	Lloyds Bank	5.75		
Coutts & Co	5.75	Midland Bank	5.75		
Credit Lyonnais	5.75	*Mount Credit Corp	6.00		

● Members of London Investment Banking Association

* In administration

COMMODITIES AND AGRICULTURE

Crude oil falls back on US report

MARKETS REPORT

By Philip Coggan and Kenneth Gooding

Crude oil prices fell back again yesterday, in the face of a US report which showed that demand has slipped in the past few weeks in response to the recent price strength. December Brent Blend fell to $24.15 a barrel in late trading, from Tuesday's close of $24.65.

Earlier, it had hit a low of $24.02 after November gas oil closed down $5 a tonne at $225.75. The gas oil market was dragged lower by Nymex heating oil, which saw some liquidation after the bearish Energy Intelligence Agency report.

The EIA said there had been a slowdown in the growth of demand to 2.7 per cent in the year-to-date from 4 per cent earlier in 1996.

Analysts were divided on the effect of reports on stock levels from the EIA and from the American Petroleum Institute late on Tuesday. Some pointed to the bearish effect of the 5.7m rise in crude stocks but others said heating oil stocks were still well below last year's levels.

Easing tensions in the Kurdish region of Iraq also weighed on the crude price.

Mr Fergus MacLeod of NatWest Securities believes the oil price is "at or close to the peak, although you could have a final surge if the weather is very cold".

On the London Metal Exchange, investment fund and trade buying lifted aluminium and copper prices, forcing those who had sold short – selling metal they did not own in the expectation that prices would fall and they could buy later and pocket the difference – to cover. Rising prices attracted some producer selling. Aluminium absorbed this but copper fell back.

Copper for delivery in three months reached $1,990 a tonne in the morning but ended in late trading at $1,976, up $16 a tonne. Three-month aluminium hit $1,411 a tonne, before trading after hours at $1,406, up $39.

Some analysts suggested there was room for further price rises in the short term as LME stocks of the metals were likely to fall further. Mr Jim Lennon at Macquarie Equities said LME copper stocks seem likely to show a record fall in October – bigger than the 86,540 tonnes in May 1994, "a time when demand was booming and the copper market was in large deficit".

Spain's olive farms fear fresh squeeze

In southern Spain's rolling olive groves the word "catastrophe" is in the air – not because of any natural event like the recently-ended five-year drought, but because of a threatened change in the way the European Union pays its aid.

Farmers' organisations, Socialist regional authorities and the centre-right government in Madrid are fighting side-by-side against draft European Commission proposals to reform the support system for olive oil.

Mr Franz Fischler, the EU farm commissioner, decided earlier this month to hold off presenting the reform document. But for the olive growers of Andalucia, the world's chief production region, the threat is still alive.

The changes would replace the current system of production related aid and intervention prices by a simpler formula based on hand-outs per tree. The Spanish say this would penalise efficiency and favour the least productive growers, and reckon it could cost Andalucia Pta20bn ($155m) a year.

Since Spain joined the EU in 1986, the aid system has raised income in the sector and enabled it to modernise and improve quality, regional officials say. In the last five years the sector has invested Pta32bn in industrial facilities in Andalucia, which accounts for three-fifths of Spain's olive groves and more than three-quarters of its output.

Spain and Italy between them dominate world production. Of an average world total of some 1.8m tonnes, Spain contributes about 30 per cent. Olive trees occupy one-tenth of the country's farmland. Production of olive oil and table olives in 1994-95 had a value of Pta232bn; aid from Brussels was worth nearly half that.

David Tosta

Olive groves near Seville, where regional authorities say there is no need for reform

Some growers stand to gain from the changes, particularly in the regions of Extremadura and Catalonia. But the Spanish argue that the reforms would remove any incentive for productivity and nullify much of the investment that has gone into Andalucia. Most of the *region's 860 olive presses are* owned by co-operatives of small farmers. Some 60 per cent have converted to new centrifugal presses in the past few years, and storage technology has been brought in from the wine industry.

"It would be the ruin of the olive business, without benefit for anybody," says Mr Justo Mármol, who heads the olive-growers' section of Andalucia's farm co-operative federation. He dismisses the proposals as "capricious". The commission, he says, "treats us as if we were under-age". Mr Mármol, who joined several thousand farmers in a demonstration in Brussels earlier this month, says there is also strong opposition among other EU growers.

Spanish officials admit the present system, which includes a special regime for small producers and support for bottlers, is open to fraud. They point the finger mainly at Italy, claiming its production figures are exaggerated. They say oil produced by small Italian growers, who under the current system do not have to prove their actual production levels, is added to the output from larger producers – in effect counting for aid twice over.

But the proposed reforms, while broadly maintaining overall aid levels for each country, would be much worse, they say. They see intervention prices, which would disappear under the changes, as a "basic condition" in a sector subject to wide output variations.

A straightforward aid-per-tree system no longer based on production would remove a vital incentive, the Spanish argue. In addition, while the plan would provide Spanish and Italian growers with more money per tree than their Greek, Portuguese or French counterparts, Madrid fears this could be challenged on legal grounds.

And finally, there is the issue of the tree-count. The Commission allows for 167m in Spain's case; Spain says it has 215m. Moreover, traditional Spanish plantations are in clumps of two or three, with each clump counting as a single tree.

Regional authorities say that, with no structural surplus in olive oil, there is no need for reform. They worry that whole areas could be abandoned if aid levels fell, hitting jobs in a region where the unemployment rate is already almost one in three. About 140,000 people work in the olive sector for at least part of the year.

In some zones, virtually all jobs depend in one way or another on olives. There are factories making olive-wood furniture, and a pilot electricity plant using left-over olive pressings as fuel.

At Albendín, a village of about 2,000 people in the province of Córdoba, they used to grow mostly cereals. "Now it's 100 per cent olives," says Mr Francisco León, secretary of the 400-member local farm co-operative. The area produces a prized top-quality oil. "If the EU cuts aid," he says simply, "all this will collapse."

David White

Scientists search for new genes for wheat

By Alison Maitland

Biotechnology must be harnessed to help break through a "yield barrier" in wheat which is preventing production from keeping pace with world population growth, crop experts said.

Top wheat scientists called for a global search for genetic diversity in wheat to find new high-yielding genes. The quest would involve tapping into wild plants and wheat collections from Australia to Russia.

Mr Matt Reynolds, of the International Maize and Wheat Improvement Centre in Mexico, said: "We are going back to wild grasses, wheat's distant relatives, and to alien, non-wheat plants to find even better genes than we have now.

"We can use biotechnology – genetic maps and markers – to identify good characteristics for yield, adaptability, resistance to pests and diseases, and good grain size and taste."

Calling for public and private funding, the centre said wheat yields grew dramatically in the "green revolution" of the 1960s and 1970s, when there was strong financial backing for agricultural research.

"While the population is growing at a rate of 2.5 per cent a year, these yields are now increasing only 1 per cent a year," said Mr Timothy Reeves, director-general. "With wheat projected to feed more people than any other crop in the 21st century, stagnating yields could put many at risk of hunger and poverty."

Scientists also want to test the theory that prolonging development of immature wheat ears will produce a larger grain, to develop high-yielding wheat hybrids, and to adapt varieties better to local farming systems.

Low zinc prices force third mine closure in three months

By Kenneth Gooding, Mining Correspondent

Low zinc prices yesterday forced the closure of another mine – the third to be put on "care and maintenance" in three months.

Analysts said depressed zinc prices had been accompanied by a slip in the price of lead – usually produced as a co-product with zinc – and this had been a deciding factor for some producers.

Mr Neil Hawkes, analyst at the CRU International consultancy organisation, said there would be more mine closures if smelters increased charges for treating lead concentrates (an intermediate material) next year.

Yesterday *Asarco, the US group,* announced the indefinite closure of its Leadville mine in Colorado, citing depressed prices. About 120 people will be laid off. Leadville produced about 14,000 tonnes of zinc and 5,000 tonnes of lead a year.

Inmet Mining, of Canada, last week suspended operations at its *48 per cent-owned Bougrine mine* in Tunisia, after deciding not to make the investment needed to cut costs in the light of present prices. The underground mine started up in 1994 and cost about US$50m. It produced 38,000 tonnes of zinc and 6,300 tonnes of lead last year.

In July, Denenhurst, owner of the small Benambra mine in Victoria, Australia, closed it, blaming low zinc prices, increased smelter charges, the higher US dollar rate and poor metallurgical performance. Benambra produced about 6,000 tonnes a year of zinc.

Mr Jim Lennon, analyst at *Macquarie Equities, part of the Australian* banking group, said that, *ironically,* smelter charges are falling because "the market is under-supplied and likely to go on that way for some time."

However, the lead concentrate market was heading for considerable over-supply when the new A$450m Cannington mine in Queensland, Australia, comes into production next year.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1371.5-72.5	1404-05
Previous	1329-30	1361-2
High/low		1413/1370
AM Official	1363.5-64.5	1395-95.5
Kerb close		1405-06
Open int.	216,372	
Total daily turnover	93,474	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1243-48	1265-70
Previous	1220-25	1242-5
High/low	1248/1248	1276/1255
AM Official	1246-48	1265-68
Kerb close		1270-72
Open int.	5,460	
Total daily turnover	1,178	

■ LEAD ($ per tonne)

Close	728-29	737-38
Previous	717-8	728-9
High/low	729.5	742/735
AM Official	728.5-29.5	738.5-39.5
Kerb close		734-35
Open int.	40,726	
Total daily turnover	10,759	

■ NICKEL ($ per tonne)

Close	7070-80	7180-90
Previous	7030-40	7145-50
High/low	7068	7230/7175
AM Official	7068-69	7182-85
Kerb close		7170-80
Open int.	43,751	
Total daily turnover	10,776	

■ TIN ($ per tonne)

Close	5945-50	6000-05
Previous	5930-40	5990-95
High/low	5950	6015/5990
AM Official	5945-50	6006-07
Kerb close		5975-80
Open int.	15,808	
Total daily turnover	5,563	

■ ZINC, special high grade ($ per tonne)

Close	1000-01	1026-27
Previous	1000-1	1026-7
High/low		1029/1024.5
AM Official	1001-02	1026-26.5
Kerb close		1024.5-25.0
Open int.	71,852	
Total daily turnover	12,508	

■ COPPER, grade A ($ per tonne)

Close	1998-2000	1968-69
Previous	1994.5-6.5	1961-2
High/low	2002/2000	1990/1955
AM Official	2015-16	1983-84
Kerb close		1976-77
Open int.	170,324	
Total daily turnover	85,532	

■ LME AM Official £/$ rate: 1.5960
LME Closing £/$ rate: 1.5963
Spot: 1.5978 3 mths: 1.5960 6 mths: 1.5945 9 mths: 1.5926

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	98.90	+1.20	97.35	96.50	565	2,388
Nov	93.60	+0.35	94.35	92.40	533	2,483
Dec	92.95	+0.50	94.00	92.45	8,275	21,970
Jan	92.15	+0.40	92.50	92.00	23	1,407
Feb	91.35	+0.30	90.90	90.90	22	960
Mar	90.45	+0.50	91.20	90.05	1,281	10,371
Total					10,026	58,315

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	383.40-383.80		
Opening	384.20-384.60		
Morning fix	383.95	240.194	481.550
Afternoon fix	383.50	240.033	490.104
Day's High	384.20-384.60		
Day's Low	383.40-383.80		
Previous close	383.40-383.80		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.73	6 months	3.57
2 months	3.68	12 months	3.51
3 months	3.65		

Silver Fix	p/troy oz.	US cts equiv.
Spot	311.85	498.25
3 months	316.30	504.75
6 months	320.40	510.65
1 year	329.45	523.50

Gold Coins	$ price	£ equiv.
Krugerrand	381-384	239-241
Maple Leaf	388.65-391.10	
New Sovereign	89-92	56-58

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	384.1	-0.1	384.0	384.0	2	14
Dec	385.9	-0.2	386.3	385.4	44,168	101k
Feb	388.1	-0.2	388.5	387.6	468	18,914
Apr	390.3	-0.2	390.8	389.7	220	10,612
Jun	392.7	-0.2	393.1	392.2	18	11,009
Aug	395.2	-0.1	-	-	10	4,349
Total					[illegible]	[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	390.2	+1.0	-	-	3	14
Jan	391.9	+1.0	392.4	390.8	2,094	19,362
Apr	394.5	+1.0	395.0	394.0	89	7,656
Jul	397.5	+1.0	-	394.0	33	916
Oct	401.0	+1.0	-	-	-	27
Total					2,139	28,228

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	120.00	-0.75	120.90	119.90	390	7,560
Mar	121.00	-0.75	121.00	121.00	20	209
Jun	122.05	-0.75	-	-	-	115
Total					395	7,894

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	496.0	-0.2	-	-	13	1
Dec	498.8	-0.2	501.0	496.5	10,633	62,503
Jan	500.8	-0.2	-	498.0	8	26
Mar	505.8	-0.2	507.0	503.5	499	12,842
May	510.4	-0.2	511.5	509.5	39	6,567
Jul	515.0	-0.2	514.0	514.0	43	5,033
Total					11,177	94,089

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	24.93	-0.50	25.55	24.83	55,504	109k
Jan	24.49	-0.54	25.04	24.40	10,009	53,144
Feb	23.98	-0.48	24.47	23.90	4,650	37,339
Mar	23.42	-0.44	23.84	23.35	3,889	21,071
Apr	23.05	-0.27	23.31	22.93	2,176	13,994
May	22.40	-0.39	22.92	22.40	637	10,346
Total					118,662	467,342

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	24.01	-0.65	24.52	24.01	16,869	73,259
Jan	23.51	-0.49	23.87	23.48	6,484	35,862
Feb	22.86	-0.46	23.19	22.85	1,281	22,977
Mar	22.29	-	22.50	22.20	1,730	28,417
Apr	21.29	-0.36	21.84	21.39	980	9,418
May	21.20	-0.20	21.28	21.20	280	3,663
Total					27,895	188,003

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	71.25	-2.20	73.50	70.70	18,813	32,227
Dec	71.15	-2.04	73.30	70.60	15,590	36,301
Jan	71.00	-1.54	72.70	70.70	7,033	27,225
Feb	68.65	-1.14	71.00	69.40	3,411	13,461
Mar	66.90	-0.74	67.35	65.60	821	9,239
Apr	62.90	-0.69	63.25	62.90	412	5,182
Total					44,494	141,826

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	225.75	-5.00	231.50	223.00	10,412	29,472
Dec	221.25	-4.50	226.00	218.75	8,077	23,285
Jan	216.50	-3.00	220.50	214.25	2,628	18,171
Feb	210.00	-1.00	211.75	209.25	557	6,436
Mar	202.25	-	202.50	200.00	747	3,286
Apr	194.25	+0.75	194.50	192.00	325	4,247
Total					23,428	97,916

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	2.550	-0.070	2.645	2.505	30,994	26,227
Dec	2.670	-0.083	2.760	2.650	15,265	34,504
Jan	2.680	-0.084	2.740	2.665	7,163	21,420
Feb	2.545	-0.050	2.690	2.520	4,057	12,631
Mar	2.380	+0.023	2.435	2.365	1,704	9,963
Apr	2.170	+0.015	2.210	2.170	537	5,175
Total					62,883	135,927

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	68.45	-0.87	70.00	68.20	14,907	21,354
Dec	67.00	-0.89	68.45	66.75	10,544	20,821
Jan	66.00	-0.79	66.90	65.80	3,163	10,859
Feb	65.40	-0.74	66.10	65.40	347	3,687
Mar	65.40	-0.74	65.90	65.60	353	2,514
Apr	67.75	-0.39	67.75	67.75	143	2,531
Total					29,685	63,642

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	97.60	+1.10	97.55	97.00	49	574
Jan	99.50	+1.15	99.50	98.80	99	2,271
Mar	100.60	+1.10	100.70	99.90	123	1,809
May	102.10	+1.10	102.10	101.30	96	1,358
Jul	103.50	+1.00	-	0	-	188
Sep	97.25	+0.25	97.00	97.00	3	136
Total					370	6,316

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	395.50	-1	405.00	396.00	14,088	37,232
Mar	391.00	-0.5	397.00	390.50	4,668	15,424
May	373.00	+0.5	376.50	373.00	478	1,809
Jul	355.00	+0.5	362.00	357.50	1,360	9,546
Sep	362.00	+2	364.00	363.00	59	249
Dec	366.00	-	366.00	366.00	15	164
Total					22,204	[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	282.75	+3.25	283.25	279.75	32,191	148,763
Mar	288.25	+3.25	289.00	285.50	9,738	83,117
May	290.50	+3.5	291.25	290.50	5,316	37,780
Jul	290.50	+3.25	295.75	292.50	5,884	30,128
Sep	286.00	+3.5	286.50	283.50	365	3,196
Dec	282.50	+3.75	283.00	279.25	3,000	22,134
Total					55,895	327,137

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	93.50	-	93.60	93.50	62	554
Jan	95.25	+0.25	95.55	95.00	10	641
Mar	96.75	+0.25	-	97.00	-	198
May	98.25	+0.25	98.50	98.25	10	100
Sep	93.00	-	-	-	-	[illegible]
Total					163	1,719

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	698.50	+9.5	699.50	690.50	41,531	68,814
Jan	702.50	+10.5	701.50	692.00	25,672	43,693
Mar	706.50	+11.5	708.50	697.50	10,142	28,916
May	707.50	+13	707.50	701.00	2,542	15,604
Jul	709.25	+13	710.00	700.00	3,974	13,772
Aug	706.00	+12.5	707.00	703.00	129	1,274
Total					94,303	180,154

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	22.75	-0.16	23.00	22.72	883	526
Dec	23.53	+0.22	23.55	23.27	7,862	49,420
Jan	23.79	+0.21	23.81	23.55	2,179	16,699
Mar	24.12	+0.22	24.14	23.88	1,536	16,731
May	24.36	+0.19	24.39	24.20	913	9,283
Jul	24.65	+0.18	24.60	24.40	182	3,755
Total					15,036	100,622

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	221.0	+1.3	238.5	228.5	586	605
Dec	228.2	+3	228.6	226.0	13,829	45,020
Jan	224.6	+3.7	224.9	222.5	3,797	10,133
Mar	221.6	+4	221.8	218.0	4,544	15,481
May	219.2	+4.2	219.6	216.3	1,227	9,899
Jul	219.2	+4.2	219.3	218.5	1,322	4,725
Total					27,873	88,819

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	32.5	-	-	-	-	2
Mar	67.7	-1.0	-	-	-	-
Apr	89.0	-1.0	88.5	87.5	27	1,350
May	78.0	-1.0	-	-	-	17
Jun	88.0	-1.0	-	-	-	18
Total					[illegible]	[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	1271	+34	1270	1250	32	746
Nov	1345	+20	1347	1340	107	828
Dec	1332	+22	1330	1330	58	280
Jan	1315	+6	1325	1310	57	1,575
Apr	1345	+10	1330	1330	10	645
Jul	1125	+5	-	-	3	180
Total					264	4,403

	Close	Prev
BFI	1221	1199

FUTURES DATA
All futures data supplied by CMS.

Nuts and Seeds
Prices from Kenkko Group; US$ a tonne. Iranian pistachios 28/30. Raw (in shell) naturally opened (round), new crop prices not yet opened as major supplier, RPPC, is still negotiating with growers; spot at 3,800, (in-shell Gold), (shelled); 23/25 NPSSR at 5,530 FAS California, Oct to Dec shipment; nonpareil availability limited. US walnuts LHP 20%: 5,500 FAS California. In-shell Hartley very difficult (crop yield estimated nearly 50% down) up at 2,380, FAS California. Turkish hazelnuts, standard No 1, vulnerable between 3,600 and 3,700 CFR. Turkish apricots number one, 3,400 FOB Izmir/Mersin. Indian cashews raw: W-320, easier at 5,300 FOB India. Spot goods still firm at 5,800 FCA Rotterdam.

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	961	+4	963	952	832	28,598
Mar	989	+4	990	980	711	41,890
May	1002	+2	1003	995	230	17,593
Jul	1016	+2	1018	1010	79	11,757
Sep	1031	+2	1033	1024	85	4,439
Dec	1042	+2	1043	1037	440	4,263
Total					[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1383	-1	1397	1382	2,441	28,964
Mar	1408	-3	1422	1406	1,155	23,057
May	1423	-3	1435	1422	972	9,581
Jul	1440	-	1454	1440	13	6,473
Sep	1454	-3	1454	1454	37	5,893
Dec	1473	-3	-	-	114	797
Total					4,623	81,521

■ COCOA (ICCO) (SDR's/tonne)

Oct 22	Price	Prev. day
Daily	1034.90	1034.52

■ COFFEE LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	1539	-8	1549	1520	854	7,631
Jan	1424	-3	1432	1401	2,067	16,115
Mar	1376	-4	1382	1353	1,000	7,625
May	1357	+3	1362	1330	512	2,652
Jul	1355	+8	1355	1340	15	388
Sep	1353	+8	1355	1335	15	77
Total					[illegible]	[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	119.30	+1.70	122.75	116.50	8,002	13,203
Mar	105.10	-1.50	108.40	102.50	3,163	8,749
May	103.75	-1.35	106.50	102.00	513	2,954
Jul	103.90	-0.35	106.00	103.25	68	808
Sep	102.50	-1.75	105.00	102.50	21	544
Dec	104.15	-0.10	104.95	103.00	15	327
Total					11,770	26,685

■ COFFEE (ICO) (US cents/pound)

Oct 22		Prev. day
Comp. daily	100.21	97.98
15 day average	98.31	97.94

■ WHITE SUGAR LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	316.2	-0.7	316.7	315.8	841	8,575
Mar	313.5	-0.1	313.8	312.5	653	12,282
May	313.6	-0.6	313.9	313.3	216	4,364
Aug	315.9	-0.5	316.0	315.7	36	1,770
Oct	309.3	-0.8	309.4	309.4	31	1,000
Dec	312.4	-0.5	314.0	314.0	4	264
Total					[illegible]	[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.65	+0.02	10.68	10.59	7,887	85,451
May	10.70	+0.05	10.71	10.64	1,620	29,018
Jul	10.61	+0.02	10.63	10.57	945	18,636
Oct	10.62	+0.04	10.63	10.57	898	10,789
Mar	10.56	+0.01	10.57	10.55	58	3,203
May	10.52	+0.01	10.45	10.45	55	654
Total					[illegible]	[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	73.08	+0.20	73.20	72.55	7,852	28,349
Mar	74.53	+0.20	74.64	74.00	1,539	12,426
May	75.45	+0.15	75.50	74.95	397	7,752
Jul	76.05	-0.05	76.25	75.80	218	5,984
Oct	75.50	+0.30	75.50	75.50	81	1,250
Dec	75.30	+0.25	75.30	75.00	79	4,425
Total					10,157	59,794

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	107.95	-2.05	110.00	107.90	458	5,632
Jan	99.15	-1.95	101.80	99.10	832	6,776
Mar	101.50	-2.20	103.40	101.30	295	3,405
May	103.60	-1.85	105.45	104.00	167	782
Jul	105.80	-1.85	107.50	106.00	2	522
Sep	107.10	-1.85	-	-	-	200
Total					1,749	17,657

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Oct 23	Oct 22	month ago	year ago
1974.5	1960.0	1900.4	2121.8

■ CRB Futures (Base: 1967 = 100)

Oct 22	Oct 21	month ago	year ago
244.06	243.83	[illegible]	[illegible]

■ GSCI Spot (Base: 1970 = 100)

Oct 22	Oct 21	month ago	year ago
211.06	210.86	200.02	180.63

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	72.775	+0.500	72.900	72.425	1,888	5,282
Dec	65.950	+0.850	66.200	65.325	5,980	39,722
Feb	65.125	+0.450	65.325	[illegible]	2,355	[illegible]
Apr	65.075	+0.275	65.250	64.800	1,552	11,977
Jun	63.100	+0.100	63.350	63.000	356	5,052
Aug	62.525	+0.025	63.100	62.800	356	3,716
Total					12,780	89,241

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	55.125	+1.500	55.125	53.725	937	805
Dec	52.375	+0.275	52.450	51.500	6,841	15,173
Feb	72.350	+0.025	72.650	71.825	3,832	7,915
Apr	68.700	+0.225	69.100	67.850	627	3,024
Jun	73.400	+0.225	73.750	72.500	510	3,242
Jul	71.350	+0.625	71.650	70.400	141	886
Total					11,654	31,869

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	67.750	+1.075	68.300	66.750	2,627	5,003
Mar	67.300	+0.825	67.800	66.900	345	561
May	69.025	+0.825	69.200	68.300	91	353
Jul	68.350	+0.850	69.000	68.000	19	133
Aug	67.800	+0.900	67.800	65.450	30	48
Total					3,312	6,098

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Nov	Feb	Nov	Feb
1350	67	110	23	38
1400	39	81	45	58
1450	21	56	76	81

■ COPPER (Grade A) LME	Nov	Feb	Nov	Feb
1900	139	144	27	89
2000	77	98	65	140
2100	37	63	124	203

■ COFFEE LIFFE	Nov	Jan	Nov	Jan
1500	19	34	3	109
1550	1	23	35	148
1600	-	15	84	190

■ COCOA LIFFE	Dec	Mar	Dec	Mar
950	28	61	18	22
975	18	46	31	32
1000	9	34	49	45

■ BRENT CRUDE	Dec	Jan	Dec	Jan
2400	-	109	-	-
2450	57	-	-	-
2500	41	68	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$21.63-1.68x	-0.540
Brent Blend (dated)	$24.65-4.68	-0.535
Brent Blend (Dec)	$24.17-4.18	-0.580
W.T.I.	$24.98-5.00x	-0.710

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$240-242	-1
Gas Oil	$230-232	-3
Heavy Fuel Oil	$123-125	
Naphtha	$230-231	
Jet fuel	$254-256	-6
Diesel	$250-255	-9.5

■ NATURAL GAS (Pence/therm)

Bacton (Dec)	13.40-3.50	

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

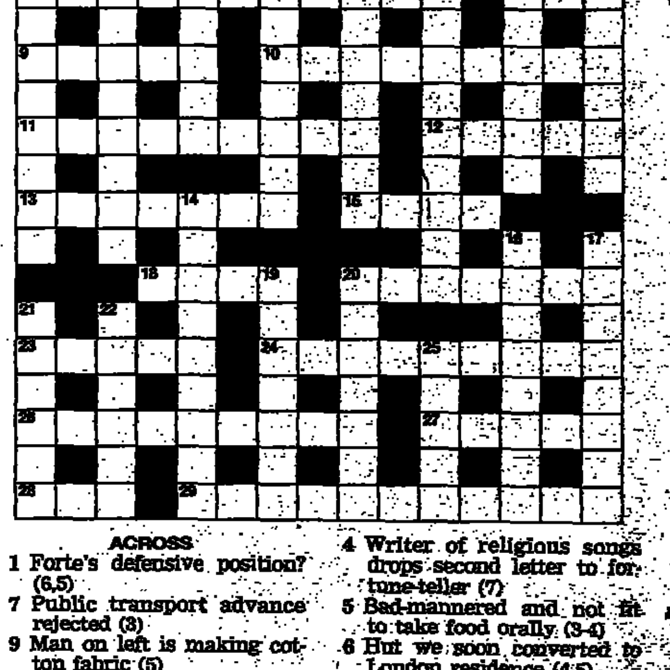
Gold (per troy oz)‡	$383.60	
Silver (per troy oz)‡	486.50c	
Platinum (per troy oz.)	$387.25	+2.00
Palladium (per troy oz.)	$118.75	+1.00
Copper	96.0c	
Lead (US prod.)	48.00c	
Tin (Kuala Lumpur)	14.65r	-0.03
Tin (New York)	277.50	+1.00
Cattle (live weight)	98.04p	+1.70*
Sheep (live weight)	119.73p	+2.96*
Pigs (live weight)†	95.12p	-3.61*
Lon. day sugar (raw)	$265.80	+1.10
Lon. day sugar (wte)	$324.60	-0.90
Barley (Eng. feed)	103.50	
Maize (US No3 Yellow)	126.50	
Wheat (US Dark North)	Unq	
Rubber (Nov)¥	81.50p	
Rubber (Dec)¥	81.50p	
Rubber (KL RSS No1)	310.0c	-0.5
Coconut Oil (Phil)§	$730.0v	+5.0
Palm Oil (Malay.)§	530.0z	+12.5
Copra (Phil)§	$459.0v	
Soyabeans (US)	201.0	+1.0
Cotton Outlook'A' Index	77.10	+2.45
Wooltops (64s Super)	410p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. v Oct w Oct/Nov x Nov y London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. † Based on 4,489 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,207 Set by HIGHLANDER



ACROSS
1 Forte's defensive position? (6,5)
7 Public transport advance rejected (3)
9 Man on left is making cotton fabric (5)
10 They and I will turn out beyond reproach (4-5)
11 He waits on battlefield to be buried with regiment (9)
12 Who said the church will provide booze? (5)
13 Viva voce grades lead to first for economic theorist (7)
15 Mickey Finn died on the carpet (4)
18 Try putting willows round (4)
20 A superior's *criminal* assistant (7)
23 Can backing in America *form military groups?* (5)
24 Give it a toy (9)
26 A combination of oil and action (9)
27 Second country in Caribbean to manufacture breathing apparatus (5)
28 Siamese pronounced equal (3)
29 Something one has right to call people beginning to testify (11)

DOWN
1 The identical society females reformed (8)
2 Was promoted and wed heartless flower girl (8)
3 French resort houses English relative (5)
4 Writer of religious songs drops second letter to fortune-teller (7)
5 Bad-mannered and not in to take food orally (3-4)
6 Hut we soon converted to London residence (4,5)
7 Brother goes over it working for a native (6)
8 Observe the foam at the mouth (6)
14 During exam mine cut top off gut (9)
16 Bearing for approach by air (8)
17 Sweet-smelling, far-out sum of money provided (8)
19 Nonconformist bishop past it, perhaps (7)
20 Not in favour of foreign leader getting in the way (7)
21 Sweet wine made from grape juice with calcium added (6)
22 Princess delayed? Swell! (6)
25 Sample the way tea is drunk outside (5)

Solution 9,206

هكذا من الأصل

Scientists search for new genes for wheat

By Alison Maitland

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

[illegible]

Jupiter Tyndall (Bermuda) Ltd

[illegible]

Newport Investment Management

[illegible]

Orbis Fund Limited

[illegible]

BERMUDA (REGULATED)(**)

Aetdorest Capital Management Ltd

Bermuda Intl Invest Mgmt Ltd

[illegible]

Butterfield Management Co Ltd

[illegible]

Integral Bond Arbitrage Fund Limited

Orbis Investment Management Ltd

[illegible]

GUERNSEY (SIB RECOGNISED)

AIB Investment Managers (Guernsey) Ltd

Adams & Neville Fd Mangt (Guernsey) Ltd

Equitable International Fund Managers

Guinness Flight Fd Mgrs (Guernsey) Ltd

[illegible]

Henderson Fd Mgrs (CI) Ltd

[illegible]

Kleinwort Benson Intl Fd Mngrs Ltd

[illegible]

Lazard Fund Mngrs (Channel Islands) Ltd

[illegible]

Lloyds Intl Money Market Fund Ltd

[illegible]

M & G (Guernsey) Ltd

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd

[illegible]

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

BZW Asset Management Guernsey Ltd

Bachmann Global Investment Fund Ltd

CIBC Fund Managers (Guernsey) Ltd

Castle Management (Guernsey) Ltd

Commercial Union Cayman Inv Mngt

Comsafe (Channel Islands) Ltd

FP Conseil

GTS Investment Funds (Guernsey) Ltd

Global Portfolio Management (Guernsey) Ltd

Guernsey Capital Management Limited

Henderson Fund Management Ltd

Hesion, Throgmorton Mngmt Ltd

IPS (Guernsey) Ltd

Lazard Fund Managers (CI) Ltd

Lazard Freres Asset Management (CI) Ltd

Lloyds Bank Fund Managers (Guernsey) Ltd

Merrill Lynch Guernsey

Midas Capital Mngt (Guernsey) Ltd

Paragon Asset Management Ltd

Rothschild Asset Mngmt (CI) Ltd

Royal Bank of Canada Intl Money Market Fd

[illegible]

Saudi International (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

Stalwart Fund Managers (Guernsey) Ltd

UBS Asset Management (Guernsey) Limited

U.L. Advisors (Guernsey) Ltd

Yamaichi Capital Mngt (Guernsey) Ltd

[illegible]

IRELAND (SIB RECOGNISED)

AIB Fund Management Ltd

Bank of Cyprus Group

Barings International Fund Managers (Ireland) Ltd

Christows Investments Plc

Coutts & Co Fund Managers Limited

Credit Lyonnais Intl Asset Mgt (HK) Ltd

Dresdner Kleinwort Benson Intl Mgt Services Ltd

Edinburgh Unit Trust Managers (Ireland) Ltd

Federated International Funds Plc

Gartmore Flight Select Funds Plc

Hambros Fund Managers (Ireland) Ltd

The Fidelity Trust Global Fund

Global Asset Management

LGT Asset Management Ltd

Lazard Brothers Investment Funds Ltd

Morgan Grenfell Investment Funds Ltd

Old Mutual International Fd Mngrs (Ireland) Ltd

Olney Asset Management Ltd

Prolific International Fund Plc

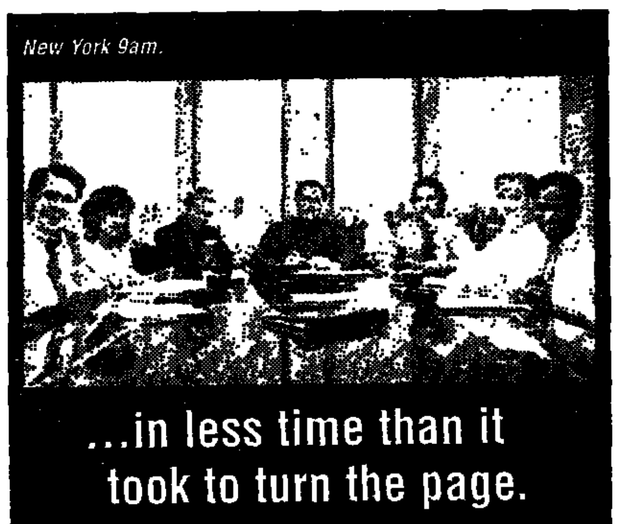
Scottish Widows Investment Management (Ireland) Ltd

Singer & Friedlander Inv Funds Ltd

Sun Life Investment Fund - Protean

Tilney (Ireland) Ltd

[illegible]



IRELAND (REGULATED)(**)

AIB Fund Management Ltd

[illegible]

ADM International Funds Plc

Argonaut European Hedge Fund plc

Asia Dynamic Growth Fund Plc

Asia Small Cap Growth Fund Plc

Asian Diversified Equity Fund Plc

Asian Emerging Markets Fund Plc

Asian Gateway Fund Plc

Asian Growth Fund Plc

Asset Korea Fund

AT&T Asset Management (Ireland) Ltd

Atlantis Korean Smaller Companies Fund

BZW Asset Management Ireland Ltd

Bank of Ireland Asset Management Ltd

Barings International Fd Mgrs (Ireland) Ltd

Baltica Mutual (Ireland) Ltd

Barkshire KTIC Growth Fund Plc

Berkshire Korea Fund Plc

Blackstone Franks Managers Ireland Ltd

Bunder Invest (Ireland) Ltd

Buchanan Asset Management (Ireland) Ltd

CFP Interest Rate Arbitrage Fund Plc

Calpian Fund

Capital Value Fund Plc

Chemical Ireland Fund Administrators Ltd

Citi Investment Fund (Ireland)

Citizens Investment Trust Mngt Company

Daiwa Europe Fund Mgrs Ireland Ltd

Dragon Korea Fund Plc

Dresdner Kleinwort Benson Intl Mgt Services Ltd

Emerging Capital European Fund Plc

Emerging Dynamic Fund Plc

Emerging Markets Trust Fund Plc

F.I.T. Investment Trust Ltd

Falcon Market Fund Plc

Framlington Investment Mngmt (Ireland) Ltd

Frank Russell Investments (Ireland) Ltd

Fuji Investment Management Co (Europe) Ltd

GT Fund Management (Ireland) Ltd

Gartmore Korea Fund

Global Resources Stock Fund

Goldman Sachs

Gordon House Asset Management Ltd

HSBC UK Equity Plan Plc

Hanson Ireland Ltd

Hansol Korea Venture Fund

Investec Asset Management (Ireland) Ltd

Kim Europe Worldwide Fund

Kleinwort Benson Bond Arbitrage Fund Plc

Korea Balanced Return Fund

Korea Bond Fund Plc

Korea CB Fund Plc

Korea Capital Growth Fund

Korea Golden Dynasty Fund Plc

Korea Investment Management Ireland Ltd

Korea Open Fund

Korea Special Opportunities Fund Plc

Korea Sprint Fund Plc

Korea Strategic Growth Fund

Korea Sunrise Fund

Korean Emerging Growth Fund Plc

Korean Power Fund

Korean Preferred Share Fund

LGT Asset Management Ltd

Lazard Brothers Investment Funds Ltd

Lotus Fund Plc

Marathon Asset Management (Ireland) Ltd

Matrix Fund Company Plc

Morgan Grenfell Cash & Money Market Fund Plc

Morgan Grenfell Income Funds Plc

Morgan Grenfell Profunds Plc

National Mutual Funds Management

New Silk Road Fund

The Northern Trust Global Cash Funds Plc

Old Mutual International Fund Managers Ltd

Orient Balanced Fund Plc

Pacific 21st Century Fund

Pacific Growth Fund Ltd

Paine Webber Offshore Funds Plc

Paribas Asset Management (Ireland) Ltd

Perlhas Multi-Manager Global Fund Plc

Pioneer Management (Ireland) Ltd

Prudential Securities Futures Management Inc

RMB Global Fund

J. Rothschild International Assce plc

SBC CAPM Strategies Plc

Samsung Yamaichi Asia Growth Fund Plc

Scottish Amicable European/International

Scottish Mutual Intl Fund Managers Ltd

Sofinam Investments (Ireland) Ltd

Singer & Friedlander Fund Plc

[illegible]

Societe Generale Group

Stellar Fund Plc

Trainer Wortham & Company Inc

Ulster Bank Investment Services

Value Express Fund Plc

Yamaichi Samsung Dynamic Korea Fund

Yellow Sea Investment Company PLC

Yukil Korea Fund

Yukil Taiwan Fund

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mngrs

Allied Dunbar Intl Fund Mgrs (IOM)

Aetnahours Global Funds Ltd (1200)F

Bank of Ireland Asset Mngmt (IOM) Ltd

CMI Fund Managers (IoM)

Guernsey Capital Management Ltd

Quilter Intl Mngt (IoM) Ltd

Sun Life Management (IoM) Ltd

Ulster Bank Global Funds Plc

Unibank Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)(**)

AXA Equity & Law Intl Fund Mgrs

Bank of Ireland Asset Mngmt (IOM) Ltd

CMI Fund Managers (IoM)

Gartmore Fund Managers (IoM) Ltd

City Financial Admin (IoM) Ltd

Duncan Lawrie Inv. Mgt. Ltd

Quilter Intl Mngt (IoM) Ltd

RBC Fund Managers Ltd

Sylvets International Fund Management Ltd

[illegible]

JERSEY (SIB RECOGNISED)

AIB Fund Managers (CI) Ltd

Barclays International Funds

Gartmore Fund Managers Intl Ltd

John Govett (Channel Islands) Ltd (1000)F

HSBC Funds Fund Mngrs (Jsy) Ltd (1000)F

Lloyds Bank (CI) U/T Mgrs.

Midland Bank Fund Managers (Jersey) Ltd

[illegible]

Newton Fund Mgrs (CI) Ltd (1200)F

Prudential Fund Managers (Jersey) Ltd

Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Standard Bank Fund Mgrs (Jersey) Ltd

TSB Fund Managers (CI) Ltd

JERSEY (REGULATED)(**)

BZW Asset Management Jersey Ltd

Bank of Scotland Offshore Investment Funds Ltd

Berkeley Intl Funds

Cater Allen Investment Management (CI)

Cazenove International Asset Mgt Ltd (CIAM)

Citibank (CI) Ltd "Citifunds"

Citibank N.A.

Coutts & Co (Jersey) Ltd

ERC Fund Managers (Jersey) Ltd

Fleming Group

Foreign & Colonial Mngt (Jersey) Ltd

Hambros Fund Managers (Jersey) Ltd

John Govett Management (Jersey) Ltd

INVESCO International Limited

Jupiter Tyndall (Jersey) Ltd

Kerry Investment Management (Jersey) Ltd

Lloyds Private Banking (CI) Ltd

Lombard Odier (Jersey) Ltd

Mercury Asset Mngt Channel Islands Ltd

Minerals, Oils Res. Shrs. Fd. Inc.

Perpetual UT Mngrs (Jersey) Ltd

The Portugal Fund Limited

Royal Bk. of Scotland Fd Mngrs (Jersey) Ltd

Schroder Investment Management (CI)

TSB Fund Managers (CI) Ltd

Wardley Asset Management (Jersey) Ltd

Worldinvest (Managers) Jersey Ltd

[illegible]

CROSSWORD

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LUXEMBOURG (SIB RECOGNISED)

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
ABN AMRO Funds (u)						
4 Rue Jean Monet, L-2180 Luxembourg 352 424949320						
Latin America Equity			[illegible]	43 34	—	-
North America Equity			[illegible]	73.78	—	-
Asian Tigers Equity			[illegible]	61 90	—	-
Europe Equity			[illegible]	72.43	—	-
Germany Equity			[illegible]	135.10	—	-
Japan Equity			[illegible]	48.81	—	-
Europe Bond			[illegible]	61.02	—	-
US Bond			[illegible]	58.70	—	-
Global Bond			[illegible]	60.93	—	-
Germany Bond B			[illegible]	108.58	—	-
Spain Bond			[illegible]	[illegible]	—	-
Eastern Europe Equity F			[illegible]	182.63	—	-
China Equity F			[illegible]	57.05	—	-
Switzerland Equity			[illegible]	[illegible]	—	-
Abtrust Fund Mngrs Luxembourg SA (u)						
4 Boulevard Royal L 2449 Luxembourg 00 352 227001						
Abtrust Atlas Fund						
Global Cap Portfolio			$3.756		[illegible]	-
United States Portfolio			$5.469		[illegible]	-
Cont'l Europe Portfolio		0	DM5.379		[illegible]	-
Japan Portfolio			[illegible]		[illegible]	-
Pacific Portfolio			[illegible]		-0.018	-
Gold Portfolio			$6.304		[illegible]	-
UK Growth of Income			£2.141		-0.003	3.61
Dollar Portfolio			[illegible]		[illegible]	7.03
Sterling Portfolio			[illegible]		+0.001	6.30
Aetna Master Fund (u) (x)						
21 avenue de la Liberte, L-1931, Lux 00 352 479 96520						
Australasian NAV			A$17.02		[illegible]	-
Austrian Nat NAV			[illegible]		-0 15	-
Belgo/Lux NAV			[illegible]		[illegible]	-
Dutch Nat NAV			[illegible]		[illegible]	-
French Nat NAV			FFr133 33		-0 53	-
German Nat NAV			DM18 41		-0 04	-
Hongkong Nat NAV			HK$135.69		[illegible]	-
Italian Nat NAV			[illegible]		[illegible]	-
Japanese Nat NAV			[illegible]		-8	-
Spanish Nat NAV			Pta1275		+1	-
UK Nat NAV			£11.00		+0.01	-

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Old Mutual International - Contd.

	Selling Price	Buying Price	+ or -	Yield Gross
$ Nth Am Stkmkt	$3.583	3.853	—	-
$ Japan Stockmkt	$1.658	1.787	—	-
$ Pacific Stockmkt	$5.330	5.731	—	-
$ Emerging Asian Stockmkt	$2.228	2.396	—	-
$ Hong Kong Stockmkt	$7.392	7.949	—	-
$ Intl Fixed Interest	$3.810	4.097	—	-
$ Intl Mngd Currency	$2.459	2.629	—	-
$ Dollar Money Mkt	$2.265	2.435	—	-
$ Latin American Stckmkt	$0.950	1.022	—	-
$ Dollar Special Mkt	$1.089	1.171	—	-
$ Emerging Market Bond	$1.177	1.266	—	-
$ Emerging Stockmarkets	$0.858	0.920	—	-
Sector Managed Funds				
£ OFS Global Port	£1.390	1.503	—	-
£ YRA Worldwide	£1.388	1.493	—	-
$ YRA Dlr Worldwide	$1.515	1.629	—	-
Young & Co Gbl Pfolio	$1.272	1.367	—	-
Pioneer Mid Term Agg	$1.148	1.229	—	-
Pioneer Long Term Cons	$1.110	1.194	—	-
Pioneer Long Term Agg	$0.876	0.942	—	-
HFP Selective Mgd	$1.123	1.208	—	-

PanEuroLife société anonyme

38 Av Marie-Thérèse, Luxembourg 00 352 456730

	Selling Price	Buying Price	+ or -	Yield Gross
French Balanced Oct 23	FFr6949.21		+2.18	-
German/Swiss Oct 23	DM3153.91		+4.63	-
Global Equities Oct 23	$1373.34		-6.96	-

Global Asset Management - Contd.

	Selling Price	Buying Price	+ or -	Yield Gross
GSAM DM Composite	DM125.24		---	-
GSAM Money Mkt US$	$101.56		+0.02	4.77
Do Sterling	£101.61		+0.02	5.07
Do Swiss Franc	SFr100.31		---	0.62
Do Deutschmark	DM100.87		---	2.1
Do Yen	Y10000		61	0
GSAM Oracle	$191.21		--	-
GAM Strategic				
Diversity Strategic A	123.56		+0.86	-
Diversity Strategic B	121.33		+0.82	-
European Strategic A	122.62		+1.24	-
European Strategic B	118.17		+1.18	-
Trading Strategic A	119.30		+0.45	-
Trading Strategic B	117.59		+0.43	-
Developing Mkts Strategic A	113.85		+0.28	-
Developing Mkts Strategic B	115.09		+0.26	-
GAM Select				
Select Aeon Class A	$93.67		---	-
Select Aeon Class B	$92.35		---	-
Select European A	$107.83		+0.54	-
Select European B	$101.40		+0.48	-
Select Japan A	$113.70		---	-
Select Japan B	$117.28		---	-
Select Money Markets B	$101.49		+0.01	-
Select North American A	$110.89		---	-
Select North American B	$129.24		—	-

Jardine Fleming Unit Trusts Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
JF Japan OTC Tst	Y1389	1449	-11	-
JF Japan Small Co	Y40982	43357	-439	-
JF Japan Tech Tst	Y31722	33580	-700	-
JF Korea Trust	$8.53	9.04	-0.09	-
JF Malaysia Tst	$32.82	34.73	+0.17	-
JF New Zealand Tst	$19.38	20.52	+0.12	-
JF Nomura Asia Tst	$15.61		--	-
JF Pacific Inc Tst	$14.04	14.86	-0.06	-
JF Pacific Smlr Cos Tst	$7.65	8.10	-0.07	-
JF Pacific Secs Tst	$53.98	57.10	-0.53	-
JF Pakistan Trust	$3.22	3.42	-0.17	-
JF Philippine Tst	$104.45	110.51	-0.38	-
JF Taiwan Trust	$11.04	11.69	-0.11	-
JF Thailand Tst	$33.82	35.78	+0.18	-
JF India	$20.19	21.37	+0.65	-
JF Indonesia Trust	$9.67	10.23	+0.03	-

Jardine Fleming Unit Trusts Ltd - Contd.

International Funds

	Selling Price	Buying Price	+ or -	Yield Gross
JF American Growth Tst	$26.85	28.41	-0.16	-
JF Continental Euro Tst	$4.05	4.28	---	-
JF European Tst	$16.86	17.84	-0.03	-
JF Germany Tst	DM11.71	12.40	-0.07	-
JF Global Bond & Currency Fd	$17.30	18.32	+0.03	6.3
JF Global Convertibles Tst	$14.17	15.00	-0.07	-
JF Global Securities Tst	$23.45	24.82	-0.14	-
JF International Bond	$10.60	10.89	+0.05	-
JF Managed Currency Fd	$15.47	16.37	+0.01	-

OTHER OFFSHORE FUNDS

	Selling Price	Buying Price	+ or -	Yield Gross
The Russian Prosperity Fund				
A Shares	$10.06		—	-
B Shares	$10.07		—	-
Worldwide Limited				
NAV Sep 30	$74.86		—	-
Xiphias International Investment Fd Ltd				
Xiphias Global Growth	$10.28		—	-
Xiphias Int ECU Acc	Ecu1.4829		—	-
Zanett Lombardier Ltd				
NAV Sep 30	$199.25		—	-
Zulauf Investment Management AG				
Zulauf Europe Ltd NAV Oct 18	DM118.090		—	-
Zweig-DiMenna International Limited				
NAV Sep 30	$15195		—	-

● MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses.

Prices of certain older insurance linked plans subject to capital gains tax on sales.

(**) Funds not SIB recognised. The regulatory authorities for these funds are:

Bermuda - Bermuda Monetary Authority

Guernsey - Financial Services Commission

Ireland - Central Bank of Ireland

Isle of Man - Financial Supervision Commission

Jersey - Financial Services Department

Luxembourg - Institut Monétaire Luxembourgeois.

Initial charge - Charge made on sale of units.

Selling price - Bid or redemption price.

Buying price - Offer or issue price.

Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:

(☼) 0001 to 1100 hours

(●) 1101 to 1400 hours

(▲) 1401 to 1700 hours

(♦) 1701 to midnight

E Exit charge on sale of units.

C Manager's periodic charge deducted from capital.

H Historic pricing F - Forward pricing

h Distribution free of UK taxes.

p Periodic premium insurance plans.

s Single premium insurance.

● Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).

x Offered price includes all expenses except agent's commission.

z Previous day's price.

⊞ Guernsey gross.

♦ Yield before Jersey tax.

† Ex-subdivision. xd - Ex-dividend

‡ Only available to charitable bodies

⊕ Yield column shows annualised rates of NAV increase.

The fund prices published in this edition are also available at the Financial Times' web site, http://www.FT.com

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	♣	459	+10	558	419	4,782	6.4	17.4
[illegible]	♣	575	—	625	477	271.9	3.2	17.3
Burn St Dist	♣	70	—	146	68½	41.5	6.7	ϕ
Champagne A		755	—	775	650	87.9	2.0	19.3
Grand Met	♣	482	-4	496	411	10,117	4.0	20.5
Guinness	♣	458½	-4	512	435	[illegible]	4.2	14.1
Highland	♣	330½	-½	378	315	440.6	3.2	15.6
5¾pc Cm Pf		89½	-½	101½	96½	—	—	—
Kirin Y		665½	-5½	879¼	657½	6,897	0.8	29.2
Matthew Clark	♣	295	+1	803	277½	281.1	10.2	14.1
Morland	♣	110½		141	92	12.0	5.1	10.1
Seagram $		£23		£25½	£20⅛	6,267	1.2	—

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

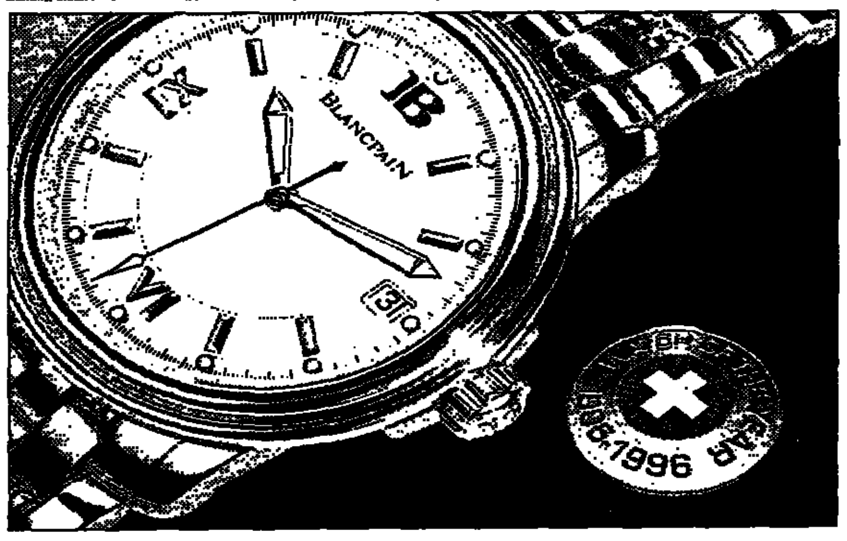
OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PAPER, PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY



PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TELECOMMUNICATIONS - Cont.

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated seperately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ☆ USM: not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ *Unregulated collective investment scheme.*

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid a whole or part as a

FID (Foreign Income Dividend)
R Forecast annualise yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1360 a year for each security shown, subject to the Editor's discretion

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For readers phoning from outside UK, please dial +44 in place of the first 0.

The share prices printed on these pages are also available on the Internet at http://www.FT.com.

LONDON STOCK EXCHANGE

US and European worries hit UK equities

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

Renewed uneasiness about Wall Street and bearish comments about German interest rates led to another unsettled performance by UK stocks yesterday. The Dow Jones Industrial Average fell through 6,000 shortly after the London market closed.

Comments from Bundesbank economist Mr Otmar Issing that German interest rates had no further to fall upset sentiment across global markets. Shares in Frankfurt and Paris fell by more than 1 per cent.

There had been good early support for the equity market from gilts, which managed to post small gains at the long end of the market in the wake of lower than expected retail sales for September. But that market, too, came under late pressure with the 20-year gilt off a net 5 ticks.

Retail sales for last month fell 0.3 per cent, giving an annual increase of 3.5 per cent, against consensus forecasts of a flat figure for the month.

The London market was burdened by strong rumours, which hit the market just after midday, of a big placing, or bought deal, with one of the biggest securities houses, said to have put its sales force on alert for a sizeable deal involving BSkyB. Reports came in subsequently of a share issue from News Corp, exchangeable into BSkyB stock.

At the close of trading, the FTSE 100 fell 28.8 to 4,028.4, well above the session low. The weakness in the leaders spilled over into the rest of the market, where the FTSE 250 settled 21.6 off at 4,431.1. The FTSE SmallCap index, meanwhile, closed 7.1 down at 2,184.0.

Analysts were nervous that markets on both sides of the Atlantic were due for a drop after their recent strong run. "The talk around the market is that Wall Street might be in for a 200-point fall, which would translate into a 100-point plus slide in London," said one strategist. He added, however, that such a fall would provide an ideal buying opportunity for funds running underweight positions.

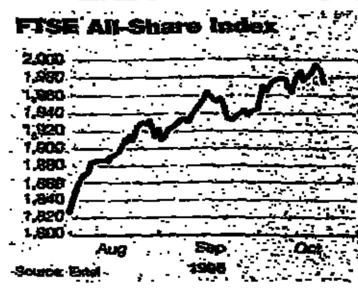
Of the big winners in the FTSE 100 Cable & Wireless remained at the forefront, still being lifted by the proposed creation of C & W Communications, a deal widely applauded around the City and in the financial press.

Shell Transport continued to reflect the market's belated response to much better-than-expected third-quarter numbers from US subsidiary Shell Oil. Oil stocks were among the best performing sectors in London, with BP and Enterprise also attracting big support. Lasmo, on the other hand, was affected by a big selling order.

Water stocks were heavily traded, with one institution said to have switched out of Severn Trent and into South West Water ahead of an expected statement from the Monopolies Commission regarding bids for South West from Severn Trent and Wessex. One specialist said the action was a good indicator that Severn would emerge victorious in the battle for South West.

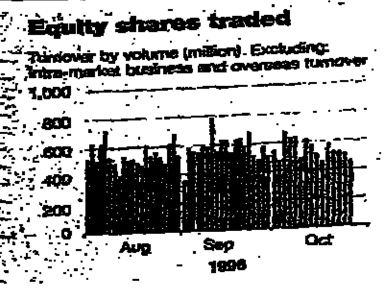
Turnover at 6pm was 683.7m shares. Customer business on Tuesday was worth £1.31bn.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	4028.4	-28.8	FT 30	2831.3	-25.5
FTSE 250	4431.1	-21.6	FTSE Non-Fins p/e	18.22	18.34
FTSE 350	2002.8	-13.4	FTSE 100 Fut Dec	4046.0	-44.0
FTSE All-Share	1976.34	-12.66	10 yr Gilt yield	7.55	7.59
FTSE All-Share yield	3.76	3.73	Long gilt/equity yld ratio	2.11	2.14

Best performing sectors

1 Gas Distribution +0.8
2 Tobacco +0.7
3 Oil: Integrated +0.4
4 Mineral Extraction +0.1
5 Distributors +0.1

Worst performing sectors

1 Media -2.1
2 Building Mats -1.1
3 Telecommunications -1.1
4 Banks: Merchant -1.1
5 Alcoholic Beverages -1.1

BSkyB under pressure

BSkyB was the biggest faller in the FTSE 100, slipping 42½ to 636p following bad news for the satellite broadcaster and reports that a substantial amount of the stock could be released into the market by Mr Rupert Murdoch's News Corp, which owns 40 per cent of the satellite broadcaster.

Reports circulating among marketmakers suggested that News Corp next week will make an issue of up to $1.5bn of special preference shares, with the potential to convert into BSkyB stock. A similar strategy was followed by Mr Murdoch in the late 1980s, when he issued bonds convertible into Pearson shares.

BSkyB recently hit an all-time high. Analysts said the stock rating was such that it took little bad news to cause a setback. The first bad news for BSkyB was on Tuesday, when Cable & Wireless confirmed it had reached agreement to merge its UK operations with Nynex CableComms Group and Bell Cablemedia. This could pose strong competition to BSkyB.

The second blow was yesterday, when Oftel, the telecoms industry watchdog, issued a provisional order against BSkyB's promotion with BT.

The promotion, opened to all new and existing members of BT's Friends and Family discount scheme, offered a range of savings on installation and monthly charges for BSkyB television services.

Shares in water utility Severn Trent retreated, while those in South West Water moved strongly ahead, as both stocks reacted to a switch from the former into the latter by a leading broker.

As the session drew to a close, shares in Severn Trent were down 9 at 579p, while those in South West had jumped 21 to 701p.

Severn Trent and Wessex Water have each launched rival bids for South West and there was talk in the market that the trade and industry secretary's decision on both bids may be published as soon as tomorrow. Wessex rose 3½ to 391½p.

Ms Angela Whelan at Crédit Lyonnais Laing believes: "The bids will be cleared by the secretary of state, but tough conditions are likely to be set for both the predator companies. This is likely to be in the form of price reductions for both South West customers and those of the predator."

NatWest Securities is a fan of South West and reinstated its "add" recommendation to the stock saying: "Despite Ofwat's [the industry regulator] preoccupation with the preservation of its beloved comparators, we find it difficult to envisage a scenario in which a bid is not viable."

EMI fell 23½ to 1256½p following a warning from PolyGram, one of its main competitors, of a flat full-year result. The Dutch group also revealed that it would take a charge in its 1996 results for restructuring its music operations.

Ms Lorna Tilbian of Panmure Gordon, commenting on the EMI fall, said that direct comparisons were difficult between the two companies as they had different exposures to markets. PolyGram's problems could be specific to it, she suggested.

Mr Nigel Reed, at Paribas Capital Markets, reiterated his "buy" recommendation on EMI. He said in the wake of the PolyGram statement he had spoken with EMI, which said it had no need for major restructuring.

On current trading, he said that EMI had said the third quarter would not be as strong as the same period last year, but the fourth would be stronger than last year.

Bargain hunting, together with general investment demand, helped lift British Gas 1½ to 186½p, following trade of 9.8m. The stock was also heavily dealt in the traded options sector where the equivalent of 3.5m shares was traded.

Firm crude oil prices attracted buyers to Shell Transport and BP. The former put on 6½ to 1057p, while the latter hardened 2½ to 688p. Dealers cited profit-taking as the main reason for the decline in Lasmo. The shares fell 7 to 219p.

An upbeat annual general meeting statement saw precision engineering company Rubicon Group advance 4 to 179p. There was two-way business in British Steel and the shares closed ¾ lower at 171¾p in trade of 8.6m. Kleinwort Benson was said to have downgraded its recommendation from "buy" to "hold". Chelsea Village, the AIM stock, fell 4 to 85½p on the announcement that Mr Matthew Harding, its largest individual shareholder, had died in a helicopter accident.

Chelsea issued an announcement that Mr Harding's "sad and untimely death" did not and would not affect its future plans to build a hotel, leisure and business complex at the football club's West London stadium. It said that his promised financial commitment was totally in place.

A few retail stocks were dampened by concern as to the impact on consumer spending by the introduction of a midweek draw of the National Lottery and figures for retail sales in September, which showed a month-on-month decline and particular weakness in the clothing sector. Next fell 9½ to 571p. Ladbroke fell 5½ to 199½p on the lottery news.

A number of building stocks fell, including RMC Group, which softened 18 to 1155p. One analyst said there was some concern about US interest rate rises. Wolseley, which expressed caution earlier this week about the US, fell 10½ to 482½p.

The market continued to appreciate Cable & Wireless following Tuesday's confirmation of the merger of its Mercury telecoms business with three leading cable companies, creating a group that could be worth around £5bn.

Moving against the poor market trend, the shares added another 4 to 471p, making it one of the best Footsie performers of the day. Volume was again heavy, reaching 14m by the close.

Analysts at US investment bank Lehman Brothers believe C&W has "pulled off a brilliant strategic coup".

They added: "The elegance of C&W's deal is that its cash commitment is small, only £360m, but it gains 52.6 per cent of a larger entity, injecting Mercury on a premium valuation and in turn paying premium values for the cable companies joining the new companies."

Nynex CableComms Group, part of the new merged company, ran into profit-taking, which left the shares trailing 9 to 110½p, the worst performer in the FTSE 250 index. Vague bid talk continued to boost General Cable and the shares hardened 2 to 199p. Fears of stiff competition from the new group continued to weaken BT. The shares gave up 7 to 347p, in trade of 7.6m.

FT 30 INDEX

	Oct 23	Oct 22	Oct 21	Oct 18	Oct 17	Yr ago	*High	*Low
FT 30	2831.3	2856.8	2870.1	2865.2	2864.4	2582.4	2885.2	2668.8
Ord. div. yield	4.01	3.97	3.95	3.96	3.97	4.10	4.22	3.76
P/E ratio net	17.19	17.37	17.46	17.41	17.38	15.67	17.46	15.80
P/E ratio nil	17.03	17.21	17.30	17.24	17.22	15.48	17.30	15.71

FT 30 since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2858.9	2850.2	2851.9	2852.0	2843.1	2839.5	2827.4	2827.0	2832.0	2859.3	2823.9

	Oct 23	Oct 22	Oct 21	Oct 18	Oct 17	Yr ago
SEAQ bargains	35,494	38,234	41,615	39,107	37,499	25,961
Equity turnover (£m)†	-	1314.0	1316.9	1629.5	1582.7	1598.4
Equity bargains†	-	31,444	34,038	33,537	32,996	30,782
Shares traded (ml)†	-	465.8	453.6	515.5	523.0	582.5

†Excluding intra-market business and overseas turnover.

	Oct 23	Oct 22	Oct 21	Oct 18	Oct 17	Yr ago	*High	*Low
FTSE AIM	1009.40	1008.50	1011.70	1010.10	1006.60	-	1140.40	985.70

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	415	Total Highs	77	Total contracts	44,819
Total Falls	841	Total Lows	83	Calls	16,159
Same	1,363			Puts	28,660

Oct 23 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4089.0	4046.0	-44.0	4088.0	4031.0	13467	63017
Mar	-	4091.0	-44.0	-	-	0	485
Jun	-	4075.0	-44.0	-	-	0	326

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4480.0	4482.0	-9.0	4480.0	4480.0	100	3571

■ FTSE 100 INDEX OPTION (LIFFE) (*4030) £10 per full index point

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

LONDON RECENT ISSUES: EQUITIES

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

Gold Mines Index (31)	1915.26	+1.8	1881.94	1815.17	1.59	-	2520.73	1722.93
■ Regional Indices								
Africa (13)	2470.51	+2.0	2421.15	2436.86	3.21	35.10	3553.86	2272.74
Australasia (6)	2213.53	+0.2	2209.38	2235.02	2.53	21.50	2827.34	2005.75
North America (12)	1719.36	+2.0	1686.34	1579.32	0.75	64.19	2186.39	1489.94

 Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Oct 23	Day's chge%	Oct 22	Oct 21	Oct 18	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4028.4	-0.7	4057.2	4073.1	4053.1	3537.8	3.89	2.04	15.74	152.31	1676.28
FTSE 250	4431.1	-0.5	4452.7	4449.4	4450.1	3906.4	3.52	1.50	23.74	157.40	1806.16
FTSE 250 ex IT	4467.5	-0.5	4488.4	4483.3	4482.9	3927.3	3.61	1.52	22.72	165.66	1825.12
FTSE 350	2002.8	-0.7	2016.2	2022.1	2014.3	1760.5	3.81	1.94	16.96	74.79	1702.67
FTSE 350 Higher Yield	1891.7	-0.5	1901.1	1911.0	1906.1	1755.6	5.15	1.82	13.35	96.64	1355.58
FTSE 350 Lower Yield	2121.1	-0.8	2138.4	2140.4	2129.8	1770.0	2.63	2.13	22.26	53.49	1483.32
FTSE SmallCap	2184.01	-0.3	2191.08	2193.32	2193.70	1956.17	3.12	1.58	25.40	59.60	1815.28
FTSE SmallCap ex IT	2183.10	-0.3	2189.81	2191.37	2190.94	1943.89	3.32	1.65	22.85	63.16	1827.47
FTSE All-Share	1976.34	-0.6	1989.00	1994.54	1987.45	1739.35	3.76	1.91	17.39	72.31	1705.63

■ FTSE Actuaries Industry Sectors

	Oct 23	Day's chge%	Oct 22	Oct 21	Oct 18	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3979.74	+0.1	3974.39	3985.34	3946.15	2905.61	3.49	1.63	21.99	128.05	1737.48
12 Extractive Industries(6)	4170.87	-0.9	4210.02	4248.49	4237.42	4086.89	3.89	2.66	12.08	162.00	1243.15
15 Oil, Integrated(3)	4137.47	+0.4	4121.07	4125.68	4077.15	2898.42	3.61	1.45	23.90	135.18	1854.16
16 Oil Exploration & Prod(15)	2943.51	-0.7	2965.44	2990.64	2981.86	1876.30	1.80	1.71	40.63	52.04	1783.57
20 GEN INDUSTRIALS(276)	2064.05	-0.7	2078.71	2087.71	2091.04	1942.65	4.14	1.74	17.36	73.85	1148.42
21 Building & Construction(34)	1212.74	-0.1	1214.38	1215.53	1218.02	906.14	3.48	1.48	24.24	36.98	1032.89
22 Building Matls & Merchs(29)	1985.13	-1.1	1987.62	2005.60	2008.54	1873.13	3.93	1.53	20.84	62.89	1007.71
23 Chemicals(25)	2424.54	-0.8	2443.06	2448.54	2454.55	2436.86	4.18	1.62	19.61	86.14	1168.72

■ Hourly movements

■ FTSE 350 Industry baskets

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
Caradon	4,100	249	-4½
Carlton Comms.†	1,300	514½	+2
Chubb	801	318½	
Coats Viyella	2,300	168	-1
Comm. Union†	3,400	647½	+1½
Compass	754	606	+10½
Cookson	1,100	244½	+2
Courtaulds†	1,000	447½	-8
Dalgety	398	321½	-1½
De La Rue	829	578½	+2
Dixons†	1,000	585½	+1½
EMI†	4,100	1256½	-23½
East Midland Elect.	494	489	-7
Electrocomps.	736	395	-5
Eng China Clays	1,200	178½	-1½
Enterprise Oil†	868	569½	+1½
FKI	5,500	206	-½
Foreign & Col. I.T.	494	160½	-2¼
Gen. Accident†	1,500	725	+5
General Elect.†	6,300	368½	-6½
Glaxo Wellcome†	5,200	1004½	-5
Glynwed	786	357	-7½
Granada†	3,000	895	-4
Grand Met.†	1,800	482	-4
GUS†	1,400	630½	-8½
Greenalls	132	565	-1½
GRE†	832	256½	-4½
GKN†	481	1155½	-5
Guinness†	3,600	456	-4
HSBC (75p shs)†	1,500	1299	+2½
Hammerson	73	399½	-1
Hanson†	14,600	86¼	
Harrisons Crosfield	888	128½	-4½
Hays	2,300	505	
Hillsdown	336	178½	-2½
Hyder	211	679	-1½
IMI	736	359½	-4½
ICI†	2,600	775½	-6
Imperial Tobacco†	7,900	384½	-½
Inchcape	2,400	298½	+5
Johnson Matthey	430	615	
Kingfisher†	1,800	683½	+1
Kwik Save	175	318½	-3
Ladbroke†	5,700	199½	-5½
Land Securities†	1,000	722½	+2½
Laporte	827	733½	+4
Legal & General†	1,500	336	-1
Lloyds Abbey	18	639½	-3
Lloyds TSB†	7,300	399	-6
LASMO†	4,900	219	-7

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. All trades are included. Source: Reuters, part of FT Information.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PORTUGAL (Oct 23 / Escudo)

		+/-	High	Low	Yld	P/E
BCO PI	1,823	+18	2,300	1,401	5.5	....
BCPort	1,875	-5	2,250	1,675	3.2	...
BESant	2,642	+9	2,650	2,090	4.3	.
BancTA	2,740	..	3,120	2,312	6.9	--
ModCnt	4,739	+39	4,800	3,430	1.3	—
PTelcm	4,005	-7	4,180	2,705	2.3	--
Soniow	4,497	-3	4,600	3,075	3.3	—
Unicer	2,840	+10	3,000	2,280	3.7	—

PACIFIC

AFRICA

NORTH AMERICA

CANADA

TORONTO (Oct 23 / Can $)

4 pm close

Prices supplied by Telekurs.

INDICES

	Oct 23	Oct 22	Oct 21	1996 High		1996 Low	
Argentina							
General(29/12/77)	(u)	18506.06	18668.46	18881.85	20/5	18297.25	22/8
Australia							
All Ordinaries(1/1/80)	2346.7	2353.8	2363.2	2388.20	15/10	2096.10	17/7
All Mining(1/1/80)	968.6	985.3	984.7	1118.40	8/5	923.10	23/9
Austria							
Credit Aktien(30/12/84)	368.91	371.31	374.04	394.99	31/5	349.19	6/6
Traded Index(2/1/91)	1081.48	1088.60	1094.71	1142.61	28/5	905.27	2/1
Belgium							
BEL20(1/1/91)	1810.15	1823.55	1820.87	1829.85	3/10	1574.80	2/1
Brazil							
Bovespa(29/12/83)	(u)	66756.0	67989.0	67989.00	21/10	43901.00	2/1
Canada							
Metals Minls♦(1975)	(u)	5167.67	5134.63	5534.60	8/5	4687.47	16/1
Composite♦(1975)	(u)	5533.00	5518.10	5533.00	22/10	4738.70	15/1
Portfolio§§(4/1/83)	(u)	2744.88	2732.43	2744.88	22/10	2327.39	12/1
Chile							
IGPA Gen♥(31/12/80)	(u)	5457.00	5484.13	5804.33	8/1	5215.28	8/4
Denmark							
CopenhagenSE(3/1/83)	449.53	453.07	454.20	454.20	21/10	358.40	2/1
Finland							
HEX General(28/12/90)	2232.29	2265.49	2254.25	2265.49	22/10	1651.67	10/1
France							
SBF 250(31/12/90)	1448.63	1463.55	1466.90	1466.67	18/10	1250.18	2/1
CAC 40(31/12/87)	2148.86	2175.61	2180.22	2185.23	18/10	1897.85	11/1
Germany							
FAZ Aktien(31/12/58)	944.10	947.26	950.02	952.86	18/10	818.59	2/1
Commerzbank(1/12/53)	2745.0	2768.20	2776.10	2782.80	18/10	2370.10	2/1
DAX(30/12/87)	2699.53	2718.98	2729.03	2734.82	18/10	2284.86	2/1
Greece							
Athens SE(31/12/80)	920.34	918.46	913.98	1017.98	4/3	872.99	7/8
Hong Kong							
Hang Seng(31/7/64)	12492.37	12444.68	(c)	12510.05	18/10	10204.87	2/1
India							
BSE Sens.(1979)	3341.86	3227.13	(c)	4069.26	18/6	2826.08	25/1
Indonesia							
Jakarta Comp.(10/8/82)	575.40	571.80	572.46	630.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2672.33	2691.28	2685.85	2700.04	4/10	2234.61	2/1
Italy							
Banca Comm Ital(1972)	622.98	627.84	627.08	674.10	20/5	572.21	27/3
MIB General(2/1/86)	1058.0	1066.0	1063.0	1142.00	20/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	21082.15	21123.68	21302.85	22666.80	26/6	19734.70	13/3
Nikkei 300(1/10/82)	295.48	296.73	298.09	319.70	26/6	284.48	11/3
Topix(4/1/68)	1576.73	1583.81	1597.06	1722.13	26/6	1524.12	13/3
2nd Section(4/1/68)	2042.37	2060.24	2075.63	2251.48	2/7	1962.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1178.35	1175.98	1174.01	1189.54	30/4	983.18	2/1
Mexico							
IPC(Nov 1978)	(u)	3247.84	3286.04	3433.75	27/8	2738.36	8/3
Netherland							
CBS TtlRtnGen(End 83)	685.3	696.0	695.1	698.00	22/10	539.50	2/1
CBS All Shr(End 83)	402.6	408.8	408.4	408.80	22/10	326.70	2/1
New Zealand							
Cap. 40(1/7/86)	2320.39	2349.67	2367.78	2367.78	21/10	2025.14	7/6
Norway							
Oslo SE(Ind)(3/1/83)	1453.56	1462.32	1488.53	1494.86	15/10	1259.68	30/1
Philippines							
Manila Comp(2/1/85)	3049.59	3073.12	3092.34	3374.40	5/7	2578.97	2/1
Portugal							
BVL 30(4/1/93)	1999.38	1995.12	2000.24	2013.16	9/10	1602.81	2/1
Singapore							
SES All-S'pore(2/4/75)	508.58	504.36	503.78	610.37	5/2	583.78	21/10
South Africa							
JSE Gold(28/9/78)	1727.8♥	1708.9	1676.5	2030.40	29/5	1346.40	2/1
JSE Indl.(28/9/78)	8281.4♥	8270.2	8262.9	8739.30	25/1	7835.60	30/6
South Korea							
KoreaCmpEx**(4/1/80)	811.98	819.22	832.62	986.84	7/5	753.36	28/8
Spain							
Madrid SE(30/12/85)	381.75	383.38	383.22	383.38	22/10	323.75	11/1
Sweden							
AffarsvarldnGen(1/2/37)	2172.9	2155.6	2198.6	2198.60	21/10	1708.60	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1780.34	1794.80	1801.07	1813.18	15/10	1518.19	17/1
SBC General(1/4/87)	1264.00	1274.36	1278.36	1289.94	15/10	1144.7	26/1
Taiwan							
WeightedPr.**(30/6/66)	6437.06	6426.30	6441.15	6844.66	5/10	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	(c)	958.05	948.52	1415.04	6/2	906.34	15/10
Turkey							
Istanbul Cmp.(Jan 1986)	83772.3	81504.4	83300.9	83772.30	23/10	38778.38	2/1
WORLD							
MS Capital Int($)(1/1/70)	795.1*	798.4	801.7	801.70	21/10	725.80	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1777.80	1788.23	1789.46	1789.46	21/10	1504.40	11/1
Euro Top-100(26/6/90)	1497.79	1509.75	1509.14	1509.85	18/10	1338.01	11/1
HSBC JC Drgn(31/12/88)	(u)	391.00	391.77	392.68	18/10	344.19	2/1
ING Barga Emrg(7/1/92)	159.76	160.52	160.94	165.81	4/7	147.35	2/1

US INDICES

Dow Jones	Oct 22	Oct 21	Oct 18	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6061.80	6090.87	6094.23	6094.23 (18/10)	5032.94 (10/1)	6094.23 (18/10/96)	41.22 (8/7/32)
Home Bonds	103.00	102.80	102.89	106.08 (14/2)	100.99 (15/7)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2123.60	2115.24	2116.42	2296.20 (22/5)	1882.71 (18/1)	2296.20 (22/5/96)	13.23 (8/7/32)
Utilities	223.66	223.52	224.57	234.08 (12/2)	204.86 (30/7)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 6114.73 (6162.60) Low 6015.59 (6027.89) (Theoretical♠) Day's high 6090.13 (6133.73) Low 6037.58 (6059.94) (Actual♠)

Standard and Poors	Oct 22	Oct 21	Oct 18	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	705.57	709.85	710.82	710.82 (18/10)	598.48 (10/1)	710.82 (18/10/96)	4.40 (1/6/32)
Industrials♥	833.81	837.21	839.55	839.55 (18/10)	702.07 (15/1)	839.55 (18/10/96)	3.52 (30/6/32)
Financial	75.26	76.00	75.54	76.00 (21/10)	58.57 (10/1)	76.00 (21/10/96)	7.13 (4/9/74)
NYSE Comp.	376.22	377.92	378.32	378.32 (18/10)	321.41 (10/1)	378.32 (18/10/96)	4.64 (25/4/42)
Amex Mkt Val	573.28	576.87	579.03	614.98 (22/5)	525.60 (16/7)	614.98 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1219.99	1236.41	1242.48	1258.10 (15/10)	988.57 (15/1)	1258.10 (15/10/96)	54.87 (3/10/74)

■ RATIOS

	Oct 18	Oct 11	Oct 4	Year ago
Dow Jones Ind. Div. Yield	2.12	2.16	2.15	2.42
	Oct 16	Oct 9	Oct 2	Year ago
S & P Ind. Div. yield	1.92	1.95	1.95	2.10
S & P Ind. P/E ratio	22.13	22.84	22.74	17.68

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Dig Equip	6,244,500	28¾	-5⅜
Hosp Prop	4,980,400	26⅜	—
Micron	4,798,800	29¾	-⅞
Baxter Intl	4,766,800	44	-1½
EMC Corp	4,451,500	27	-⅜
Chrysler	3,860,500	33⅜	+⅛
AT&T	3,812,200	39¾	-⅛
Gen Mtrs	3,688,600	54½	+⅜
Xerox	3,436,900	46¾	+¼
Union Pac	3,331,500	27⅝	+¼

■ TRADING ACTIVITY

● Volume (million)

	Oct 22	Oct 21	Oct 18
New York SE	410.680	414.615	467.939
Amex	17.854	18.748	18.644
NASDAQ	618.367	466.125	573.403
NYSE			
Issues Traded	3,271	3,259	3,227
Rises	913	1,061	1,340
Falls	1,524	1,313	1,038
Unchanged	834	885	849
New Highs	127	202	191
New Lows	63	38	28

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x Index)							
Oct	2174.0	2154.0	-26.0	2176.0	2148.0	17,904	28,015
Nov	2178.0	2159.0	-26.0	2180.0	2156.5	3,346	3,645
■ DAX							
Dec	2716.0	2690.5	-47.0	2723.0	2687.0	27,073	-
Mar	2736.0	2709.0	-42.6	2737.5	2707.5	211	-
■ OMX							
Oct	1695.00	1688.00	-17.25	1701.00	1680.25	12,116	17,970
Nov	1707.50	1695.25	-17.00	1711.00	1689.75	9,736	14,740
■ SOFFEX							
Nov	3775.0	3737.0	-41.5	3778.0	3732.5	4,663	21,109
Dec	3770.9	3748.2	-46.8	3770.9	3744.3	8	542
■ S&P 500							
Dec	708.85	708.10	-1.00	709.40	705.90	76,376	180,062
Mar	714.30	714.50	-1.00	715.00	712.50	195	5,151
■ Nikkei 225							
Dec	21050.0	21100.0	-70.0	21130.0	20940.0	25,705	208,365
Mar	21130.0	20900.0	-250.0	21150.0	20900.0	48	12,096

Open interest figures for previous day.

** Sat Oct 19: Taiwan Weighted Price 6451.85; Korea Comp Ex 831.18. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Oct 23- 2678.69 -42.85

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Wednesday, October 23, 1996

	Stocks Traded	Closing Prices	Change on day
Kaisei Elect Ry	8.6m	1150	+10
Sumitomo Seika	5.5m	885	-15
Nippon Steel Cp	4.3m	339	-1
NKK Corp	3.9m	284	
Mitsubishi Hvy	3.6m	900	+5
Sumitomo Mtl Ind	3.6m	306	-4
Kobe Steel	3.5m	277	-3
NEC Corp	3.5m	1220	
Fujitsu	3.4m	1000	-30
Hitachi	3.0m	1030	

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NEW YORK STOCK EXCHANGE PRICES

4 pm close October 23

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
27	17 3/4	AAR	0.48	1.8	24	319	u27	26 1/2	26 1/2	-1/8
46 1/8	36 1/8	AMP	1.00	2.6	18	3224	38 5/8	38 1/8	38 1/4	-5/8
97 1/2	68	AMR			16	7586	81 1/4	80 7/8	81 1/8	-1/2
50 1/2	37 3/8	ASA	2.00	5.1	25	516	39 3/8	39	39 1/4	-1/8
53 1/8	38 1/8	AbbtL x	0.96	1.9	21	11057	51 1/8	50 1/4	50 3/4	-1/8
17 1/4	12 1/4	AbitibiPr	0.40	3.1	6	808	13	12 3/4	13	+1/8
20 1/4	13 1/2	ABM Ind x	0.35	2.0	18	59	18	17 3/4	17 7/8	-1/2
21	13 3/8	Acptncein			40	51	19 5/8	19 3/8	19 5/8	+1/8
57 1/4	37 3/4	ACE Ltd	0.58	1.1	12	1520	53	51 3/4	52 3/8	-5/8
10 1/8	9 1/8	ACM Gvt In	0.48	4.7	8	139	u10 1/8	10	10 1/8	
7 7/8	6 5/8	ACM GrOpp	0.57	8.0		320	7 1/8	7	7 1/8	+1/8
9 5/8	8 3/8	ACM Man	0.90	9.6		130	9 1/2	9 3/8	9 3/8	-1/8
13 7/8	6 1/8	Acme Elect	0.32	4.0	133	55	8 1/8	7 7/8	8	-1/8
18 1/8	13 7/8	Acme Mills			11	46	u18 1/8	17 3/4	18 1/8	+1/2
33 3/4	27 3/4	Acordia	0.72	2.4	17	4	30 1/4	30 1/4	30 1/4	
21 3/8	12	Acuson			98	686	19 7/8	19 3/8	19 5/8	-1/4
20 3/8	17 7/8	Adams Expr	0.48	2.4	1	105	20 1/2	19 7/8	20	-1/2
21 3/4	10 3/4	AdvMic			18	5505	17 5/8	17 1/8	17 5/8	+1/4
11 1/8	8 1/2	Advest Grp	0.16	1.8	6	19	9 1/8	9 1/8	9 1/8	
26 1/8	9 1/8	Advo Inc	0.10	0.7	675	389	13 7/8	13 3/8	13 1/2	-1/4
53 3/8	41 1/8	Aegon	1.45	2.7	16	30	52 7/8	52 1/2	52 3/4	-1/2
6 3/4	3 1/2	AerRx			2	56	4 3/8	4 1/4	4 1/4	
70 7/8	57 5/8	Aetna x	0.80	1.3	7	11898	63 1/8	61 5/8	62 1/4	-1
38 3/4	28 1/4	Aflac	0.40	1.0	16	3575	u38 3/4	38 1/4	38 5/8	+3/4
21 1/8	17 1/8	AGL Res	1.06	5.1	17	267	21	20 5/8	20 3/4	
30 7/8	21 1/4	Ahmson	0.88	3.0	53	2973	29 7/8	29 1/4	29 3/4	+1/8
62 1/4	50 3/8	AirPrC	1.10	1.8	16	2845	61 1/2	60 5/8	60 3/4	-5/8
28 1/8	19 7/8	Airbne Frt	0.30	1.4	14	221	21	20 5/8	20 3/4	-1/4
25 1/2	15 1/2	Airgas Inc			35	1265	22 3/8	21 3/4	22 1/8	-1/8
18 7/8	13 1/4	Airlease	1.80	12.1	9	18	14 7/8	14 3/4	14 7/8	
33 5/8	25	AirTch			73	13325	26 1/4	25 3/8	25 3/4	+1/4
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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Continued on next page

NYSE PRICES

4 pm close October 23

Continued from previous page

7¼	6½	Zenix Inc x	0.72	10.3		49	7⅛	7	7	-⅛
22⅞	15⅛	Zero	0.12	0.8	16	27	19½	19⅜	19⅜	-⅛
26	18½	Zurn Ind	0.40	1.6	20	85	25⅜	25¼	25⅜	
11⅜	10½	Zweig Fund x	1.08	9.9		311	11	10⅞	10⅞	
9	8¼	Zweig Total x	0.84	10.0		540	8½	8⅜	8⅜	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

‡ Dealings suspended.

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AMEX PRICES

4 pm close October 23

NASDAQ NATIONAL MARKET

4 pm close October 23

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
ACC Corp	0.125	07	571	41½	40½	40⅝	-⅝
Acclaim E		5	2537	5⅞	d5½	5⅞	
Acxiom Cp		52	1586	42½	40¼	41 7/16	-1 5/16
Adaptech		37	14870	62¾	60⅜	62⅛	-½
ADC Tele		51	5737	63	61¼	62¾	+⅞
Addington		20	242	26¼	25⅜	25¾	+⅝
AdeccoADR	0.16	31	4	35½	35½	35½	
Adobe Sys	0.20	35	6704	35	33⅞	34¾	+¼
Adv Logic		12	213	8¾	8½	8⅝	+⅛
Adv Polym		13	941	8 7/16	7 13/16	8 7/16	+7/16
AdvTchLab		86	3841	28½	25	28½	+½
Advanta B	0.43	11	4263	44	43⅛	43½	
Advanta A	0.36	12	2612	45⅛	44¾	45	-⅛
AgnicoEa	0.10	40	20	14⅞	14¾	14¾	
AirExpr	0.24	18	685	u32	30⅞	31	-¼
Akzo ADR	1.75	12	458	64½	64	64	-⅜
AlaBld	0.88	17	71	24½	24⅛	24⅜	
AlcCorp	0.60	19	339	16¼	15⅞	16⅛	+1/16
Allen Org	0.52	13	40	39	39	39	+¼
Allan Ph		17	867	16	15⅝	15⅝	-⅜
AlldCapll	1.52	17	25	19¼	18⅞	19	-⅜
Alld Cap	1.16	13	87	u16	15⅝	15⅝	-⅜
Alcoelle C	0.32	7	100	3 11/16	3¾	3 11/16	
Alpha Gold	0.06	25	1103	4 3/16	4 1/32	4⅛	+.08
Altera ♣		25	18943	60¼	57⅝	60⅛	+1⅝

US shares stay on downgrade

AMERICAS

US shares continued to retreat from recent highs in early trading, although corporate earnings reports continued to be better than analysts' forecasts, *writes Lisa Bransten in New York.*

Around noon, the Dow Jones Industrial Average dipped briefly below 6,000, but it quickly rebounded. By 1 pm, the blue chip index was off 52.55 at 6,009.25, the Standard & Poor's 500 fell 4.42 at 702.15 and the American Stock Exchange composite 4.31 at 568.98. NYSE volume was 243m shares.

Technology stocks were also weaker in early afternoon trading. The Nasdaq composite, which initially rose more than 4 points, was off 2.38 at 1,217.62.

Mr Joseph Battipaglia, chief investment strategist at Gruntal, attributed some of yesterday's decline to a "buy on the rumour, sell on the news" mentality that had some investors pulling back a bit as profits came in on target or slightly ahead of expectations.

With most leading earnings reports already out, the market should trade in a narrow range at least through the early part of next month, he said. "Now all we have to look forward to for the next several weeks is the election and minor economic news."

Du Pont slipped in spite of a strong earnings report. Shares in the chemicals company, a component of the Dow, fell $1¼ to $96, although it reported earnings ahead of forecasts.

Electronic Data Systems tumbled $11¼, or more than 19 per cent, to $48 after warning that profits might come under pressure in the fourth quarter because of decreased government spending. The company posted third-quarter earnings of 55 cents per share, in line with expectations.

Conrail jumped $12¼, or 14 per cent, to $96⅞ on news that Norfolk Southern had launched a hostile bid, valued at about 13 per cent more than CSX had previously offered for the railroad company. Shares in Norfolk Southern slipped $1⅛, or 1.5 per cent, at $93¼ and CSX was unchanged at $46¼.

Netscape Communications managed to rise on its strong earnings performance. Shares in the Internet software company added $2¼, or 5 per cent, at $46⅝ after it reported net income of 9 cents a share, a cent ahead of expectations.

TORONTO continued to ignore Wall Street, moving ahead steadily in spite of the early shakeout in the US. At noon, the 300 composite index was up 11.62 at 5,544.61.

Conglomerates underpinned the improvement, adding 2.5 per cent according to the index sub-sector. Among individual stocks, Seagram put on C$1.20 to C$50.50 and Northern Telecom gained C$83.55.

CARACAS maintained a positive stance, putting up a strong showing for the second day running. Dealers said sentiment had been bolstered by the countdown to the privatisation of the state telecoms group, CANTV.

Details of the flotation are expected shortly, possibly next week. At midsession, the IBC index was 74.61 higher at 5,943.02.

MEXICO CITY fell back following the late Tuesday increase for primary interest rates. The Bovespa index was off 743 at 66,013 at midsession. GFB, the financial group, was heavily traded, with the B shares dipping two centavos to 3.30 pesos ahead of its earnings statement.

Savage responses as bourses fall

EUROPE

A savage response to disappointing company news was broadened by a weaker DM-dollar rate and after the Bundesbank's chief economist, Mr Otmar Issing, said that there was no reason to expect further reductions in key German interest rates. Bonds fell, equities followed, and a poor start for the Dow kept sentiment bleak.

FRANKFURT was shaken by a profit warning from Germany's leading software maker, SAP, whose pref shares dropped DM66.20, or 23.8 per cent, to DM211.70 after Tuesday's post-bourse news of third-quarter profits down 11 per cent against forecasts of a 40 per cent annual growth rate.

Brokers cut their earnings forecasts, Mr Harry Christopoulos at BZW in Frankfurt taking his down from DM6.30 to DM5.50 a share for 1996. But worse than that, he said, the company had failed to match expectations before. It had also seen its share price up 39 per cent in the past three months as sentiment recovered for the company after seven months in the doldrums.

The Dax index fell 42.85, or 1.6 per cent, to an Ibis-indicated 2,678.89. German stock market turnover leapt to DM12.1bn with SAP's contribution soaring to DM3.4bn.

Another disappointment, in Tuesday's 1997 sales forecast from the new retailing giant, Metro, was greeted with a further drop of DM5.05 to DM127.95 for a two-day fall of 9.3 per cent. Here, however, BZW said that Metro's analysts meeting had not provided any new alarm signals and the broker reiterated its buy recommendation.

There was consolation for the market in the 56 per cent rise in nine-month profits at Volkswagen, which rose a token DM1.45 to DM582.70, and in the break-even at the engineer, Kloeckner-Werke, which ended DM2.70 higher at DM253.40.

PARIS mirrored the downward drift across Europe with the CAC 40 index closing off 26.75 at 2,148.86.

Eridania Beghin-Say bounced on takeover talk, but Lagardère met with severe profit-taking and falls of more than 2 per cent among blue chips were commonplace.

Lagardère, up more than 40 per cent in four straight sessions following news of the Thomson group takeover, came off 6 per cent, sliding FFr11.10 to FFr166.7.

Talk of a bid – possibly from rival foods group Saint Louis – fuelled a rise of FFr14 to FFr603 in Eridania. LVMH ended FFr17 lower at FFr1,145 after a big block of shares changed hands at FFr1,153.

Among second-liners, Club Med tumbled 17 per cent following Tuesday evening's profits warning. Suspended limit-down at the opening bell, it closed off FFr69 at FFr329.

AMSTERDAM moved lower, pushed down by the early shakeout on Wall Street plus unexpected shocks closer to home in the shape of a profits warning from PolyGram.

PolyGram fell precipitously, sliding more than 6 per cent as analysts took a knife to earnings estimates. The stock closed off Fl 5.40 at Fl 79.50 while shares in Philips, which owns 75 per cent of the music group, came off Fl 2.40 to Fl 56.60.

Philips puts out its third-quarter results today. At the close, the AEX index stood at 583.57, off 9.54.

MILAN ended 5.63 lower at 622.96 in terms of the Comit index. News of the cut for the official discount rate came after market hours.

Sentiment at Telecom Italia suffered from the group's clash with the competition authorities and the shares fell L34 to L3,488. Olivetti bounced gently off Tuesday's lows, closing L18.3 better at L453.2.

ZURICH took its recent consolidation much deeper into negative territory, the SMI index falling 32.4 to 3,742.9.

Pharmaceuticals were generally weak, partly reflecting futures trading and the underlying equities' weightings in the SMI. Roche certificates fell SFr110 to SFr9,540 and, while leading brokers kept the Novartis partners on buy or priority lists, Ciba fell SFr15 to SFr1,561 and Sandoz registered by SFr16 to SFr1,468.

STOCKHOLM fielded a slightly disappointing nine-month report from Volvo. The Affärsvärlden General index fell 22.7 to 2,127.9 and the carmaker's B shares came back SKr3 to SKr138.

However, the market's weakest sector was banks, which lost over 12.8 per cent as interest rate fears spread across the continent.

On the brighter side, OM Gruppen rose SKr3 to SKr138 after it said that it had signed an agreement with IBM relating to the development of an electronic trading system.

COPENHAGEN was dragged lower by banks after HSBC James Capel downgraded Den Danske and Unibank. The KFX index closed 1.65 lower at 127.63 with Den Danske Bank off DKr8 at DKr424 and Unidanmark DKr7 lower at DKr278.

In shipping, AP Moller was hit by the weaker dollar, with its D/S Svendborg shares falling DKr4,130 to DKr210,500, and D/S 1912 slip DKr1,000 to DKr147,000.

Tele Danmark fell DKr3.85 to DKr296.65.

VIENNA featured a 5 per cent drop in Austria Mikro Systeme (AMS) which closed Sch41 lower at Sch777, after SAP trimmed its sails in Germany and as investors took profits out of a recent rebound in the battered Austrian stock ahead of nine-month earnings due next week.

AMS had plunged by more than 55 per cent between last December and its 1996 year-low of Sch640 in August, before rebounding to almost Sch900 earlier this month.

The ATX index closed 2.4 lower at 1,081.48 in spite of a rise in earnings at the big blue chips, Mayr-Melnhof and Radex-Heraklith.

Written and edited by William Cochrane and Jeffrey Brown

FTSE Actuaries Share Indices

Oct 23	THE EUROPEAN SERIES							
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	1785.64	1785.85	1785.82	1785.22	1782.80	1780.85	1778.58	1777.80
FTSE Eurotrack 200	1839.04	1838.59	1838.07	1837.76	1836.44	1831.02	1828.58	1829.57
	Oct 22	Oct 21	Oct 18	Oct 17	Oct 16			
FTSE Eurotrack 100	1788.22	1788.48	1787.73	1771.26	1768.98			
FTSE Eurotrack 200	1843.38	1840.58	1841.20	1828.78	1826.03			

Base value 1000 (26/10/90); High/day: 100 - 1786.85 200 - 1840.83 Low/day: 100 - 1777.28 200 - 1828.04 † Partial

S Africa continues to go for gold

Golds continued to make the running in Johannesburg on a day of narrow trading and dull volumes.

In spite of the early shakeout on Wall Street, the overall index climbed 8.6 to 7,036.4. Industrials added 11.2 to 8,281.4 and the golds index gained 18.9 to 1,727.8.

Golds rode up on the improving bullion price, although the sector came off the top towards the close of the session.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: Oct 18 1996	% Change over week	% Change on Dec '95	Local currency terms: Oct 18 1996	% Change over week	% Change on Dec '95
Latin America	(248)	543.82	-0.3	+15.3			
Argentina	(31)	860.61	-2.5	+7.4	527,785.50	-2.5	+7.4
Brazil	(68)	387.82	+2.1	+27.0	1,486.66	+1.9	+33.9
Chile	(43)	723.48	-1.5	-3.3	1,207.95	-0.8	-1.0
Colombia[1]	(15)	641.89	+0.4	+7.3	1,154.73	+0.5	+10.0
Mexico	(66)	533.42	-1.6	+17.7	1,775.38	-0.4	+17.9
Peru[2]	(21)	217.24	+0.2	+10.1	339.10	-0.7	+22.1
Venezuela[3]	(5)	663.24	-3.2	+98.4	7,187.14	-3.0	+175.4
Asia	(632)	252.09	+1.3	+8.6			
China[4]	(24)	61.67	+0.1	+14.0	64.60	+0.1	+13.7
South Korea[5]	(145)	100.61	+0.0	-20.1	109.41	-0.2	-14.8
Philippines	(35)	295.08	+4.3	+13.7	374.45	+4.3	+13.9
Taiwan, China[6]	(83)	144.97	-2.0	+28.6	149.66	-1.9	+29.5
India[7]	(76)	80.21	-1.6	-0.2	101.62	-1.5	+1.2
Indonesia[8]	(44)	116.39	-0.4	+6.1	146.90	-0.2	+7.8
Malaysia	(123)	328.74	+2.3	+21.2	304.29	+2.4	+19.8
Pakistan[9]	(25)	213.07	-0.2	-12.2	358.67	-0.2	-4.9
Sri Lanka[10]	(5)	97.53	-1.3	-6.3	121.46	-1.3	+0.5
Thailand	(72)	258.45	+1.6	-31.2	261.62	+1.7	-30.4
Euro/Mid East	(238)	141.51	-0.8	-0.1			
Czech Rep	(5)	67.86	-1.8	+13.1	61.59	-1.3	+15.8
Greece	(47)	250.55	-4.3	+3.7	409.23	-3.8	+5.7
Hungary[11]	(8)	182.06	+0.8	+85.0	342.45	+1.3	+111.6
Jordan	(8)	180.14	+0.0	-2.5	269.13	+0.0	-2.4
Poland[12]	(22)	770.15	-2.5	+80.6	1,374.58	-1.8	+107.6
Portugal	(26)	134.11	-0.7	+15.9	143.25	-0.4	+20.5
South Africa[13]	(63)	227.53	-1.3	-11.8	213.94	-1.1	+10.1
Turkey[14]	(54)	152.07	+4.0	+45.5	6,810.07	+5.5	+127.8
Zimbabwe[15]	(5)	430.73	+4.2	+56.8	680.65	+6.3	+80.5
Composite	(1118)	299.03	+0.2	+8.4			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Turkey hit an all-time closing high yesterday to cement its position as this year's second fastest moving emerging stock market after Venezeula, writes Jeffrey Brown.

The Istanbul SE composite index, up *by around a third over the past month,* closed at 83,772.33, up 2,267.92.

The investor buying spree is being driven by the combination of profits growth and low-earnings multiples. The economy is expanding fast and most brokers expect company profits *to rise by 15 per cent this year.*

This points to a broad 1996 price-earnings *multiple for Turkish equities of* around 7.0, a low rating by almost any international comparison.

"Even allowing for all the political and inflation caveats that beset Turkey, multiples like this can always find ready takers," said one specialist.

The recent budget held out the promise of economic reform, notably a widening tax net. And although the new government, installed in July, has a very narrow mandate, most observers sense that change is slowly on the way.

In the meantime, the economy, helped by a loose fiscal stance, continues to expand. GNP is set to rise by 8 per cent this year after 5.5 per cent in 1995.

Capitalised at about $30bn, Istanbul is one of the smaller emerging stock markets and one of the most volatile, but it claims to be relatively liquid. Daily turnover, at around $120m, is broadly five times the average for similar sized European stock markets.

Fiscal package boosts Karachi again

ASIA PACIFIC

Pakistan's package, a rupee devaluation and the imposition of extra taxes brought KARACHI's speculators out to cover their short positions for the second day *in succession* and the KSE-100 index rose 38.94, or 2.8 per cent, to 1,432.57 after Tuesday's 2.1 per cent gain.

Pakistan State Oil factored in the rise in petroleum prices to end PRs10.75, or 3.3 per cent, up at PRs10.75. Hub Power, PRs1.45, or 4.5 per *cent, at PRs33.80, matched* the rise in its global depositary receipts abroad.

BOMBAY, too, made a second successive leap, with brokers *claiming* a *shortage* of stock for much of the recent strength of share prices.

The BSE index closed 103.44 higher at 3,330.57, a two-day advance of more than 6 per cent. The wave of investor buying followed weekend moves by the central bank *to* loosen credit controls.

TOKYO edged down on continued selling by foreign investors and securities *houses,* although a late wave of arbitrage-linked purchases erased earlier losses and returned the Nikkei average above the 21,000 line, *writes Gwen Robinson.*

The 225 index closed 41.53 lower at to 21,082.15 after moving between 20,791.48 and 21,089.74. Volume stayed low at an estimated 287m shares, against Tuesday's 278m.

The Topix index of all first-section stocks fell 7.08 to 1,576.73, and the capital-weighted Nikkei 300 by 1.25 *to* 295.48. Declines led advances by 744 to 284 with 203 unchanged.

In London, the ISE/Nikkei 50 index fell 2.26 to 1,428.14.

Noting the marked shift in September as foreign investors moved from the buying side to selling, analysts said that many feared that the conservative LDP would abandon promises for administrative reform and stimulus measures on the strength *of its comfortable victory* in last Sunday's general election.

Keisei Electric Railway, the day's most actively *traded issue and a popular* speculative stock, attracted strong buying interest. The private rail operator rose Y10 to Y1,150 on media *reports of the imminent* stock exchange listing of Oriental Land, in which it is a leading shareholder. Oriental *Land is the operator of* Japan's most successful theme park, Tokyo Disneyland.

Large-capital steels and selected blue chips were sold by *foreign* securities companies, with Kobe Steel down Y3 to Y277, Oki Electric Industry sliding Y11 to Y692 and Toshiba off Y6 to Y728.

Minolta, which on Tuesday *reported healthy interim* earnings for the first-half to September, moved up from Y11 to Y702. However, other leading camera makers lost *ground, with* Nikon *falling* Y30 to Y1,260 and Canon off Y30 at Y2,180.

In Osaka, the OSE average shed 218.85 to 21,498.55 in volume of 14.77m shares.

WELLINGTON was hit by another bout of political uncertainty and the 40 Capital index closed 29.28 lower at 2,320.39. NZ Telecom retreated 20 *cents to NZ$7.82.*

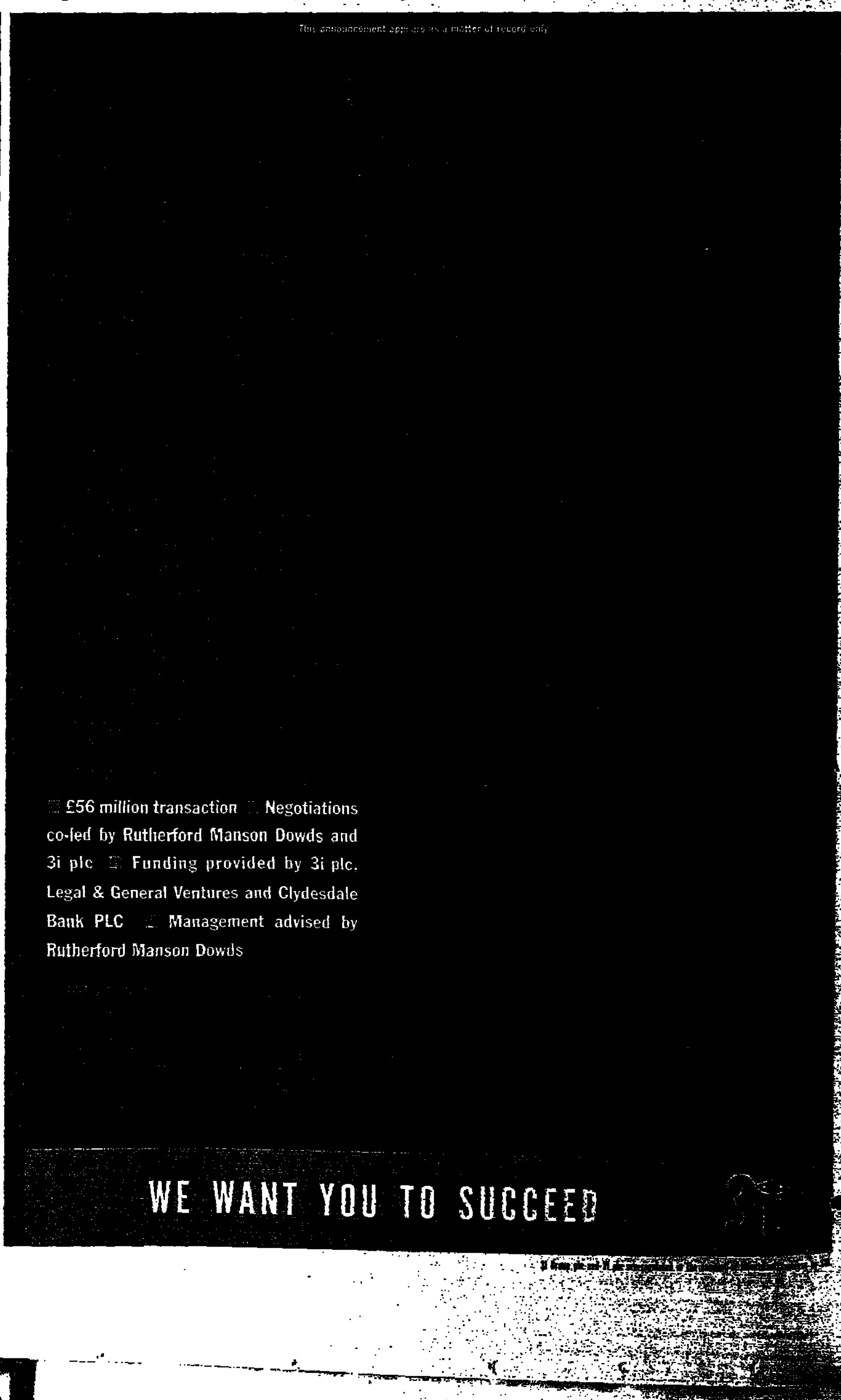
Traders said that the market was unsettled by Wall Street's overnight setback, and by talks between New *Zealand's two main political* parties following this month's inconclusive election.

SYDNEY continued to move lower with another heavy sell-off for News Corp, the media giant, *leading* the market down. The All Ordinaries index ended off 6.9 at 2,346.7.

News Corp fell *13* cents to A$7.84 for a two-day decline of 33 cents following a negative change of stance by a leading broker.

The better bullion price lifted gold stocks and provided a respite to the generally negative tone. Plutonic put on 18 cents to A$6.20.

MANILA moved down for the third day running, closing off 23.58 at 3,049.59. Dealers said volume was thin with most interest in second-liners. Mondragon International, the leisure and retail group, came off 75 centavos to 14.75 pesos.



FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY OCTOBER 22 1996: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY OCTOBER 21 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (78)	214.38	–0.4	198.96	152.98	171.08	179.14	–0.2	4.25	215.24	200.62	153.38	171.90	179.56	215.24	179.77	182.80
Austria (24)	181.69	–0.3	168.62	129.65	144.99	144.87	–0.3	1.94	182.17	169.80	129.82	145.49	145.38	196.04	168.36	170.08
Belgium (27)	220.41	0.3	204.56	157.28	175.89	171.87	0.2	3.88	219.84	204.92	156.66	175.56	171.69	221.99	193.45	194.19
Brazil (28)	185.59	–1.6	172.25	132.44	148.11	350.64	–1.4	1.75	188.55	175.75	134.36	150.59	355.71	189.70	123.97	151.41
Canada (116)	178.87	0.5	166.01	127.64	142.75	174.26	0.3	2.05	177.84	165.86	126.80	142.11	173.73	178.87	134.14	140.54
Denmark (30)	335.14	–0.3	311.04	239.15	267.45	267.86	–0.4	1.72	336.30	313.46	239.65	268.58	269.00	336.30	276.89	285.19
Finland (23)	221.93	0.5	205.97	158.37	177.11	214.17	0.5	2.33	220.75	205.76	157.31	176.30	213.10	235.98	171.73	235.98
France (93)	201.44	–0.2	186.95	143.74	160.75	163.92	–0.2	2.97	201.77	188.07	143.79	161.15	164.29	201.77	167.70	168.74
Germany (58)	180.08	–0.3	167.13	128.50	143.71	143.71	–0.4	1.72	180.62	168.35	128.71	144.25	144.25	180.62	155.66	161.14
Hong Kong (59)	466.42	–0.6	432.88	332.83	372.21	463.02	–0.6	3.30	469.43	437.56	334.52	374.91	466.00	470.59	354.67	381.83
Indonesia (27)	204.45	–0.4	189.75	145.89	163.16	291.61	–0.4	1.73	205.36	191.42	146.34	164.01	292.85	–	–	–
Ireland (16)	313.15	1.0	290.63	223.46	249.90	274.27	0.6	3.28	310.15	289.09	221.02	247.70	272.79	313.15	241.27	247.81
Italy (58)	78.47	0.6	72.82	55.99	62.62	89.76	0.5	2.29	78.03	72.73	55.61	62.32	89.36	84.53	67.22	69.24
Japan (480)	141.74	–0.9	131.55	101.15	113.12	101.15	–0.8	0.76	143.11	133.39	101.98	114.29	101.98	164.68	137.76	146.25
Malaysia (107)	584.72	0.6	542.68	417.25	466.62	564.00	0.4	1.17	581.93	542.42	414.69	464.76	561.92	585.09	425.77	471.80
Mexico (27)	1205.73	–1.2	1119.03	860.40	962.20	10226.60	–0.9	1.34	1220.72	1137.83	869.90	974.93	10320.37	1325.65	791.99	1005.47
Netherland (19)	313.59	0.4	291.04	223.77	250.25	246.42	0.3	2.99	312.26	291.05	222.52	249.38	245.61	313.59	251.81	258.02
New Zealand (15)	93.09	–1.3	86.40	66.43	74.29	69.66	–0.8	3.94	94.35	87.94	67.23	75.35	70.24	94.35	75.94	82.72
Norway (35)	262.65	–0.2	243.76	187.42	209.60	231.70	–0.3	2.19	263.17	245.30	187.54	210.18	232.48	265.73	222.24	238.66
Philippines (22)	194.68	–0.5	180.69	138.93	155.36	254.88	–0.5	0.63	195.61	182.32	139.39	156.22	256.08	–	–	–
Singapore (43)	373.48	0.6	346.64	266.52	298.06	243.61	0.6	1.14	371.28	346.07	264.58	296.52	242.05	465.21	361.94	371.22
South Africa (44)	346.03	0.0	321.15	246.92	276.14	345.64	0.1	2.22	346.10	322.60	246.63	276.41	345.21	437.76	314.20	364.30
Spain (37)	188.63	0.2	175.07	134.61	150.53	184.55	0.1	3.18	188.30	175.51	134.18	150.39	184.33	188.63	145.15	148.56
Sweden (48)	396.92	0.0	370.23	284.66	318.34	390.14	–0.2	2.20	398.97	371.88	284.31	318.64	390.83	398.97	294.19	317.16
Switzerland (37)	244.22	–0.4	226.66	174.28	194.90	191.55	–0.3	1.54	245.14	228.49	174.69	195.78	192.17	254.34	219.07	223.54
Thailand (45)	116.21	–0.4	108.71	84.35	94.34	116.95	–0.4	2.93	118.66	110.60	84.56	94.77	117.38	183.95	112.17	163.17
United Kingdom (213)	260.57	0.1	241.84	185.94	207.94	241.84	–0.3	3.90	260.33	242.66	185.52	207.92	242.66	260.57	222.29	225.89
USA (623)	287.41	–0.5	266.74	205.09	229.36	287.41	–0.5	2.07	288.89	269.26	205.86	230.71	288.88	288.37	236.38	240.86
Americas (794)	263.00	–0.5	244.09	187.68	209.88	221.05	–0.5	2.06	264.26	246.31	188.31	211.05	222.12	264.65	215.17	219.74
Europe (718)	224.79	0.0	208.63	160.41	179.39	195.14	–0.2	2.94	224.76	209.50	160.17	179.50	195.51	224.79	191.44	194.43
Nordic (136)	339.18	0.0	314.79	242.03	270.67	292.47	–0.1	2.14	339.22	316.19	241.73	270.92	292.89	339.22	261.13	268.30
Pacific Basin (876)	157.67	–0.8	146.34	112.51	125.83	113.70	–0.7	1.23	158.95	148.16	113.27	126.95	114.49	177.01	148.86	156.73
Euro-Pacific (1594)	185.52	–0.4	172.18	132.38	148.05	144.40	–0.4	2.10	186.25	173.60	132.72	148.75	145.04	190.57	166.51	172.35
North America (739)	280.88	–0.5	260.68	200.43	224.15	279.94	–0.5	2.07	282.18	263.00	201.07	225.35	281.25	282.57	230.17	234.68
Europe Ex. UK (505)	200.77	0.0	186.34	143.27	160.22	167.85	–0.1	2.37	200.84	187.20	143.12	160.40	168.02	200.84	170.51	173.44
Pacific Ex. Japan (396)	298.48	–0.3	277.02	212.99	238.19	257.06	–0.2	2.89	299.31	278.99	213.29	239.05	257.66	299.31	243.59	256.54
World Ex. US (1809)	187.47	–0.4	173.99	133.78	149.61	148.45	–0.4	2.09	188.16	175.38	134.08	150.27	150.07	191.55	167.36	173.30
World Ex. UK (2219)	214.72	–0.5	199.28	153.22	171.35	183.89	–0.5	1.89	215.77	201.12	153.76	172.32	184.75	216.41	186.61	190.92
World Ex. Japan (1952)	259.60	–0.3	240.93	185.25	207.17	245.21	–0.4	2.41	260.37	242.69	185.54	207.94	246.10	260.37	217.26	220.75
The World Index (2432)	218.66	–0.4	202.94	156.03	174.50	189.11	–0.5	2.08	219.60	204.69	156.49	175.38	189.97	220.11	188.87	193.98

 CONSTITUENT CHANGE WITH EFFECT 28/10/96: Share weighting increase: E.N.I. (15% weighting to 23.75% weighting) (Italy). Any further weighting changes will be announced in due course. Latest prices were unavailable for this edition.